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Selecting and Evaluating Professional Accounting Services

An American Management Association Research Report for

GROWING ORGANIZATIONS

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Growing Organizations

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Mr. Suarez has published several articles on marketing for professional services firms, and has been quoted extensively on the subject in accounting publications. Married with four children, he lives in suburban Philadelphia.

Contents

	Introduction	vii
1.	**Choices: Respondent Organizations and Their Accounting Firm**	1
2.	**Selecting an Accounting Firm**	
	Survey Findings	11
	The Selection Process: Less a Science than an Art	25
3.	**Evaluating an Accounting Firm**	
	Survey Findings	37
	The Evaluation Process: Matter and Mischief	51
4.	**Fee Structures and Services Rendered**	
	Survey Findings	63
	Fees and Fairness	79
	Appendix: Tables	83

Introduction

Small businesses drive the American economy, creating the greater share of new jobs, new products, and new opportunities. Fewer than 10,000 of the nation's three million incorporated businesses gross as much as $50 million a year; over 98 percent gross less than $10 million a year. Yet these smaller firms employ most of America's workers. More than half of the nation's salaried employees work in organizations of fewer than 100 people, and an additional 24 percent in firms that employ between 100 and 500 people.

Operating under intense competitive pressures, small firms tend to put their people directly into providing services or making and selling manufactured goods. They hire for the line, not the staff. For staff functions--legal representation, advertising expertise, and accounting services--they seek outside professional help.

In 1989, the American Management Association completed a survey of nearly 400 chief executive officers of small businesses, seeking information about their accountancies. We collected quantitative data on the firms they used, the services they bought, and the fees they paid. We also asked for subjective evaluations of their accountants' performance

and for the advice they would offer to those selecting a new accounting service.

To those who head small businesses, this AMA Research Report offers detailed information and useful guidelines on the selection and evaluation of professional accounting services.

For accounting firms, we provide a variety of insights on the special needs and specific expectations of their current and potential clients. We do so because accountants, too, find themselves operating in an increasingly competitive market.

The Competitive Edge

Under the headline "Accounting Firms Struggle to Grow as Competitive Pressures Mount," a 1989 *Wall Street Journal* article made these points:

- Growth, often through merger, is a key to survival.
- Large CPA firms are courting more small business clients.
- In an economic downturn, competition will become yet more fierce.

The first note is underscored by a spate of recent mergers among the nation's largest accounting firms. When the AMA questionnaire was designed, distributed, and tabulated in 1988-89, there were eight major accounting firms whose national standing was so widely recognized that the expression "the Big Eight" was common business parlance. They were:

- Arthur Andersen & Company
- Coopers & Lybrand
- Deloitte Haskins & Sells
- Ernst & Whinney
- Peat Marwick Main & Company
- Price Waterhouse
- Touche Ross
- Arthur Young & Company

But no longer are there eight. In late 1989, Arthur Young & Company merged with Ernst & Whinney to create Ernst & Young. Deloitte Haskins & Sells announced plans to merge with Touche Ross to become Deloitte & Touche. Other mergers pend that may reduce the list still further or, if second-tier firms join

forces, expand it once again. Because there were eight when this survey was completed, we use the expression "Big Eight" throughout this report, applying it to these firms regardless of their present and future incarnations.

AMA's survey findings confirm *The Wall Street Journal's* second point beyond question. The Big Eight firms have made important penetration into the small business market. They serve 23 percent of the companies in our sample that gross less than $10 million annually, 14 percent of firms grossing less than $2 million. Big Eight market share increases with the size of the client firm.

But are small businesses necessarily better served by large accountancies? Can regional and local firms, or sole practitioners, compete? Survey data suggest that they can.

We asked our respondents to rate in order of importance a set of seven criteria in selecting a new accounting firm. We found that such items as "personal rapport with the provider" and "geographical proximity to the client" were rated highly by smaller businesses. The personal touch, real or perceived, gives local accountancies an advantage in courting such clients.

We discovered that certain extras (that is, added or specially tailored services) matter more to smaller firms. They rated assistance in succession planning, strategic planning, and general business consulting far more highly than did their larger brethren.

We found that certain types of businesses favor some extras over others. On a five-point "importance rating":

- Providers of health care and medical services rated *specialized computer software* at 3.31, against an overall average of 2.80.
- Wholesale and retail traders rated *succession planning* at 3.29, against an overall average of 2.83.
- Taken as a group, banking, financial, and insurance firms rated *tax planning* at 4.31, against an overall average of 4.12.

Local contacts also work in favor of the local accounting firm seeking clients of smaller scale. The data indicate that in selecting an accountant, small businesses rely more heavily on personal recommendations from bankers, attorneys,

business associates, or social acquaintances than do larger clients. A large company's selection process more likely involves a search or selection committee, and perhaps a bidding process; a small firm's choice is more personal, and more likely to end with a local accountancy or sole practitioner.

About This Report

AMA's survey of small business CEOs provided the numbers upon which this report is based. The expertise in explaining their meaning and practical application in the "real world" of business comes from Edward A. Suarez, National Partner for Marketing and Business Development for Laventhol & Horwath.

In general, the report follows the structure of the questionnaire used to gather the data. We begin with a look at the 377 survey respondents and the accounting firms they currently employ. We then present, in Chapter Two, an analysis of survey data relating to selection issues, and follow that with Mr. Suarez' guidelines for selecting a new accounting firm.

Chapter Three features Mr. Suarez' commentary on evaluating one's *current* accounting firm, again preceded by the relevant survey data. Chapter Four discusses the fee structures reported by our respondents. An appendix contains additional data tables.

The entire datapack from this survey, broken down into various subgroups including annual sales, business category, and current accounting service, is a weighty item of more than 300 pages of printouts. Nevertheless, we will cheerfully provide this raw data, in either printed or computerized form, to interested parties. You are invited to contact the AMA Research Reports editor to discuss this added service and the additional costs involved.

1

Choices: Respondent Organizations and Their Accounting Firms

In this chapter, we present a profile of the AMA sample of respondent organizations, and report our findings on the accounting firms that they employ. We will discover that the field is dominated by the nation's largest accounting firms. (Note again that we use the term "Big Eight" throughout the report. As explained in the Introduction, we do so because our questionnaire employed that term, and our data was taken before recent mergers and acquisitions reduced their number.)

THE AMA SAMPLE

The AMA sample is self-selecting. We mailed questionnaires to three distinct lists:

- Chief executive officers of AMA-member companies identified as "growing organizations";
- CEOs who are members of AMA's Presidents Association; and
- CEOs of businesses employing 250 or fewer workers. This last list was purchased from a national business weekly.

The entire sample of 377 has a ±5.2 percent margin of error. Naturally, as the subgroupings grow smaller, the margins of error grow larger. Because the identical questionnaire was sent to all three lists, we combined the data from the sample's various parts.

How Small is Small?

There is no nationally recognized standard that defines a "small business." The most familiar definition comes from the Small Business Administration and dates from 1953. It contains no reference to annual sales or number of employees. It simply states that "a small business concern shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation."

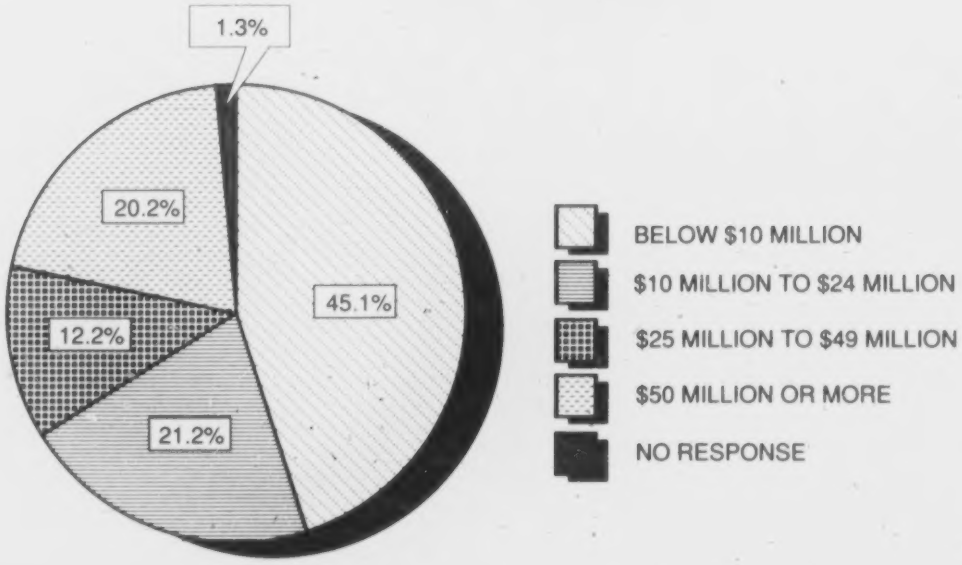
Other authorities have offered various definitions based on numbers. An article in the July 1986 *Journal of Small Business Management* cited several: a business managed by not more than three managers, or one whose workforce does not exceed 100 persons, or one employing fewer than 500 persons, or one with less than $1,000,000 in gross receipts.

The American Management Association offers company memberships for "growing organizations," defining these as firms employing fewer than 300 employees or operating on an annual income of $30 million or less. AMA Research Reports generally allows a wider scope, classifying companies with fewer than 500 employees and/or less than $50 million in annual sales as "small." (For nonprofit organizations, we substitute annual operating budget for annual sales.)

Twenty percent of the current sample grossed *more* than $50 million in 1988, but because each of these respondents employs fewer than 500 people, we included them in our data

Exhibit 1

THE AMA SAMPLE:
ANNUAL SALES OR BUDGET



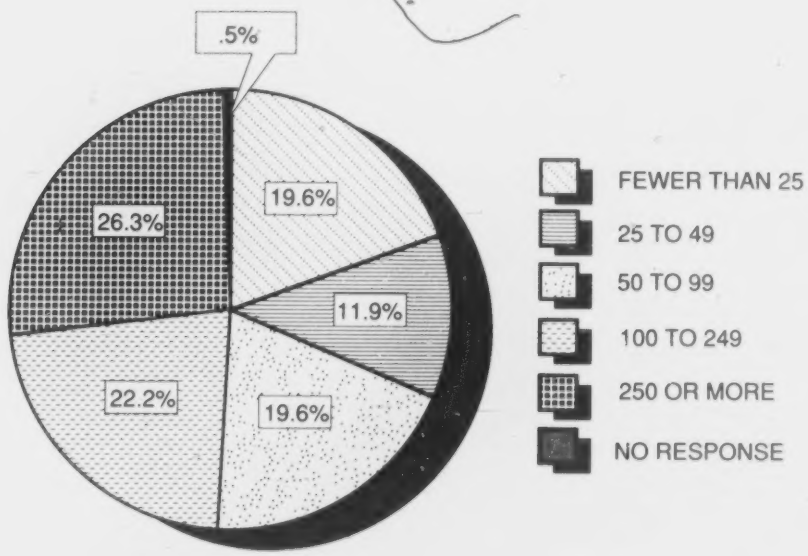
base. No organization in the sample employed more than 500 full-time workers.

A complete breakdown of the AMA sample by various criteria appears in the Appendix. The charts and text that follow present more generalized information, with some notes of immediate interest.

Organizational Size: Exhibits 1 and 2 present a profile of the AMA sample in terms of annual sales and number of employees.

Exhibit 2

THE AMA SAMPLE: NUMBER OF EMPLOYEES



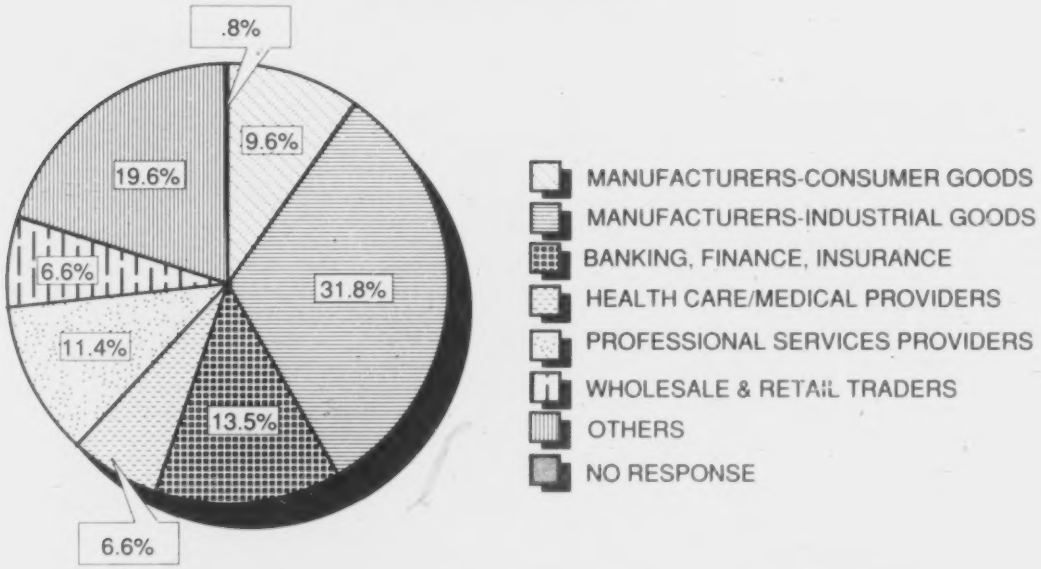
Business Category: Exhibit 3 breaks out the sample by business lines. There were important correlations between business category and organizational size.

We found that 72 percent of professional services providers grossed less than $10 million in their latest fiscal year, compared with 56 percent of health care and medical firms and 49 percent of industrial goods manufacturers. At the high end, 47 percent of the banking, financial, and insurance firms grossed $50 million or more, while no other category contained more than 20 percent of firms with sales that high.

Average Three-Year Rate of Growth: We asked respondents to average their annual growth rate over the past three years. As a body, the AMA sample is growing vigorously. Nearly two thirds of our respondents have grown by better than 10 percent per annum over the past three years. Exhibit 4 presents the data.

Exhibit 3

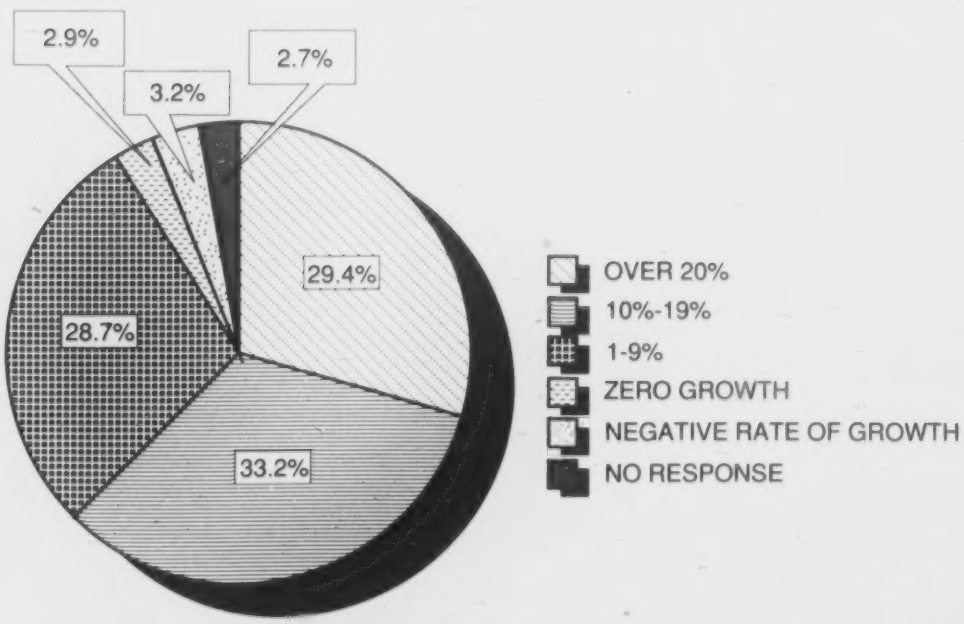
THE AMA SAMPLE: BUSINESS CATEGORIES



"OTHERS" INCLUDE: AGRIBUSINESS/FOOD PROCESSING (11); COMMUNICATIONS/PUBLISHING (6); CONSTRUCTION (11); EDUCATION (3); ENTERTAINMENT/RECREATION/LODGING (7); GOVERNMENT/MILITARY (4); MINERAL EXTRACTION/PROCESSING(5); TRANSPORTATION/DISTRIBUTION (6); UTILITIES (7) (N=377)

Exhibit 4

THE AMA SAMPLE: AVERAGE ANNUAL RATE OF GROWTH PAST THREE YEARS



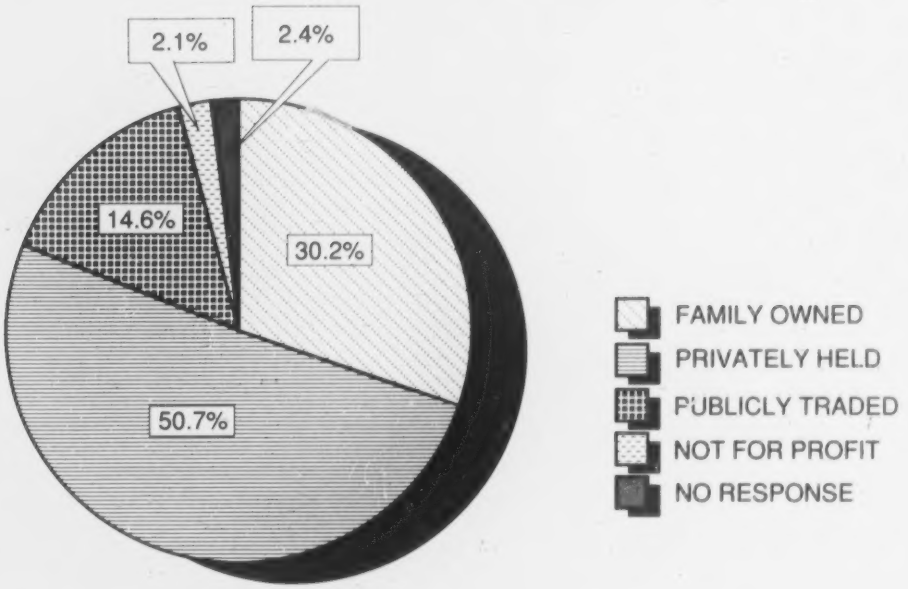
Times have been rough in the manufacturing sector. Fourteen percent of the manufacturers of consumer goods reported zero or negative growth over the past three years, as did 7.5 percent of the manufacturers of industrial goods. In comparison, 4 percent of the wholesale and retail traders, and *no* professional services providers or health care and medical firms, reported zero or negative growth.

As might be expected, smaller companies report higher growth rates. Thirty-four percent of the firms grossing less than $25 million grew by 20 percent or more annually, compared with 21 percent of the larger firms. The data shows little differentiation in growth rates across ownership type.

Ownership Type: We presented four categories of ownership in our questionnaire. Exhibit 5 presents the responses.

Exhibit 5

THE AMA SAMPLE:
TYPE OF OWNERSHIP



We found a strong correlation between ownership categories and organizational size. Nearly two thirds of family-owned businesses grossed less than $10 million in their latest fiscal year, compared with 44 percent of privately held firms and just 15 percent of publicly traded firms. In contrast, 62 percent of the traded firms grossed $50 million or more.

Half of the sample's manufacturers of consumer goods are family-owned. In other categories, private holding predominates: 48 percent of wholesale and retail traders, 63 percent of professional service firms, 62 percent of health care and medical firms, and 52 percent of manufacturers of industrial goods are privately held.

CURRENT ACCOUNTING SERVICES

Our questionnaire listed five categories of accounting firms: the Big Eight, the "second-tier Big Eight," regional firms, local firms, and sole practitioners. Only 11 of the 377 respondent firms (2.9%) answered that they were "second-tier" clients. The terminology proved a problem: While most respondents were familiar with "Big Eight" as a business term, the phrase "second-tier" was far less familiar. Eleven respondents are served by "second-tier" firms and *know them by that term;* other respondents no doubt use the firms but not the phrase. Therefore, the 11 firms that told us they are served by "second-tier" accountancies were taken out of the sample for many of the data comparisons that follow, as a sample of 11 is not statistically valid. These 11 firms are included in our figures only when specifically cited.

The Big Firms and the Big Eight

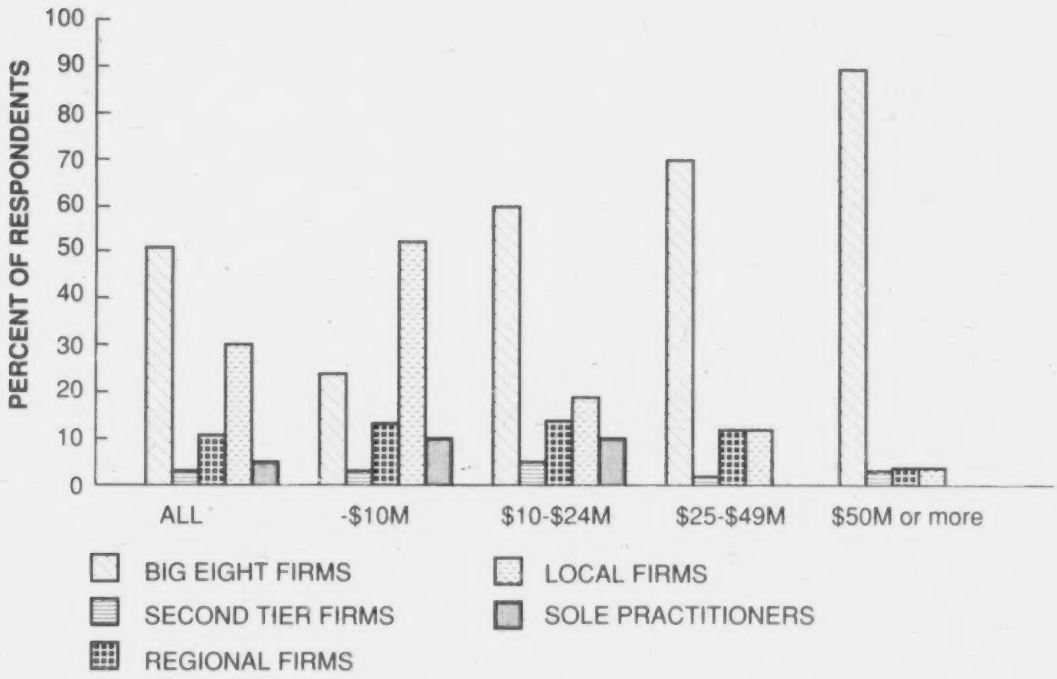
The size of the client firm correlates strongly to the size of the accounting firm. This relationship is not causal--that is, companies do not choose their accountancies strictly on the basis of their annual sales. But the correlation between client size and type of accountant is an ongoing factor in any analysis of our findings.

As Exhibit 6 makes clear, Big Eight domination increases with the size of the company. The Big Eight serve 72.5 percent of firms with annual sales of $10 million or more.

Big Eight penetration does not cease at the $50 million line. Only among those firms reporting less than $10 million in annual sales does Big Eight domination fall off, but even here their reach is considerable.

As stated above, size is not the only factor affecting the choice of accountant. The company's line of business and form of ownership also matter. But these criteria are themselves

Exhibit 6 **CURRENT ACCOUNTANT - BY ANNUAL SALES**



often a function of organizational size, and in most cases--not all, as we shall see, but in most--the matter comes back to annual sales. As sales increase, so does Big Eight representation.

The smaller businesses in our sample--those that do less than $10 million in annual sales--are more likely to be family-owned, and to boast higher growth rates. Therefore, local accountancies are a frequent choice of rapidly growing companies, and, with sole practitioners, serve a greater share of family-owned firms. The actual figures:

Current Accounting Firm

Ownership Mode	*Big Eight*	*Second-Tier*	*Regional*	*Local*	*Sole Practitioner*
Family-owned	29%	1%	13%	47%	11%
Privately held	51%	5%	12%	28%	5%
Publicly traded	89%	0%	7%	4%	0%
Not-for-profit	63%	0%	0%	38%	0%

Current Accounting Firm (Continued)

Ownership Mode	*Big Eight*	*Second-Tier*	*Regional*	*Local*	*Sole Practitioner*
Average Annual Rate of Growth					
Over 20%	44%	2%	14%	37%	4%
10% to 19%	56%	2%	9%	27%	6%
1% to 9%	49%	6%	13%	27%	4%
Zero growth	45%	0%	9%	27%	18%
Negative growth	50%	0%	8%	25%	17%

None of this is surprising. Publicly held companies (nine out of ten are represented by a Big Eight firm) need audits and certified financial statements; privately held and family-owned businesses can sometimes get by with less complicated accounting reviews or compilations.

By the same token, larger companies often ask their accounting firms for nonaccounting services that smaller firms can't or don't provide. A diversified manufacturing company with many divisions, for example, may need sound strategic planning advice. A chemical company initiating sales in Third World companies might call on its accounting firm to gain entry to those markets. A local flooring and tile distributor is more likely to ask its accountants to help find short-term financing for inventory or payroll.

Smaller accounting firms more than hold their own with privately held and family-owned businesses. Regional and local firms, and sole practitioners, represent 44 percent of the privately held companies responding, with a particularly strong showing from local firms (28%). Local firms are also favored by family-owned companies in our survey, chosen by 47 percent of those responding.

Regional firms fared somewhat less well, selected by 17 percent of family-owned businesses and 12 percent of privately held companies. Among companies with sales of less than $10 million, local accounting firms were favored by 52

percent of our respondents, regional firms by 13 percent, and sole practitioners by 11 percent.

Again, no surprises here. Many smaller companies have fairly straightforward tax and accounting needs that can be more than adequately met by smaller accounting firms. Smaller companies may also have limited trading areas, so they don't need either national representation or the nonaccounting services demanded by larger companies.

When we correlated business category with type of accountancy, only one statistically significant variation occurred in which annual sales were not a factor. We found that wholesale and retail traders tended to choose local accounting firms to a greater degree than any other kind of business. Among firms reporting less than $50 million in annual sales, 57 percent of wholesale and retail traders chose local accountants, compared with 35 percent of all others.

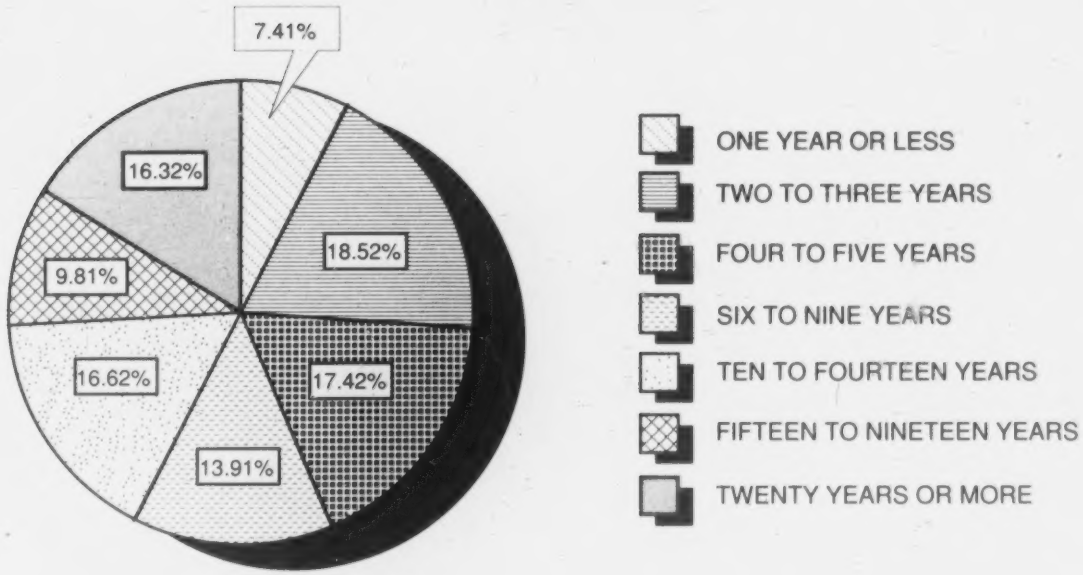
Finally, bear in mind that companies in our survey reporting less than $10 million in sales can have *much* less than $10 million in sales. Owners and principals of small service companies or start-up ventures may simply use the accounting firm that provides them personal tax and financial planning advice.

Long-Term Loyalty

A retired businessman--that is, one with nothing to lose by being frank--reflected on our findings thusly: "Of course you never fire your accountant. He's the one who knows where all the bodies are buried." Active managers on both sides of the relationship might prefer a kinder interpretation of the remarkable fact that so many of our respondent firms have used their current accounting firm for a long time. Exhibit 7 shows the data.

Twenty-six percent of the sample have been with their current service for 15 years or more; nearly half of these (12 percent of the whole sample) have used their current service for a quarter of a century! But the most frequently reported numbers are lower: 43.3 percent of the sample have been with their current service for five years or less. Bear in mind, of course, that not all our respondents have been in business for more than five years. Still, the average term of service is 10.6 years; the median response--half above the number, half below--is 7.5 years.

"HOW LONG HAVE YOU BEEN WITH YOUR CURRENT ACCOUNTING SERVICE?"
(N=367)



Big Eight clients have been with their accountants for an average 11.7 years; local and regional clients, 8.6 years. Companies using sole practitioners have done so for an average of 7.8 years.

Such figures give strong evidence that the match between client and accountant, if not made in heaven, boasts strong earthly ties. Why should this be? Part of the explanation lies in the selection process itself, which we examine in the following chapter.

2

Selecting An Accounting Firm

In this chapter, we search the data to discover how a client firm's special needs may influence its choice of an accountant. We report how our respondents ranked seven key selection criteria, and how they rated the reliability of various sources of information about accounting firms.

We follow that with an essay by Ed Suarez, National Partner for Marketing and Business Development for the accounting firm of Laventhol & Horwath, that offers guidelines for the selection process.

SURVEY FINDINGS

Three areas of inquiry touched upon the selection process. The first focused on singular aspects of the client's business; the second, on standards that a potential accountancy might meet; and the third, on whom among various sources of information might have the best advice to give a CEO in search of a new accounting firm.

Special Aspects

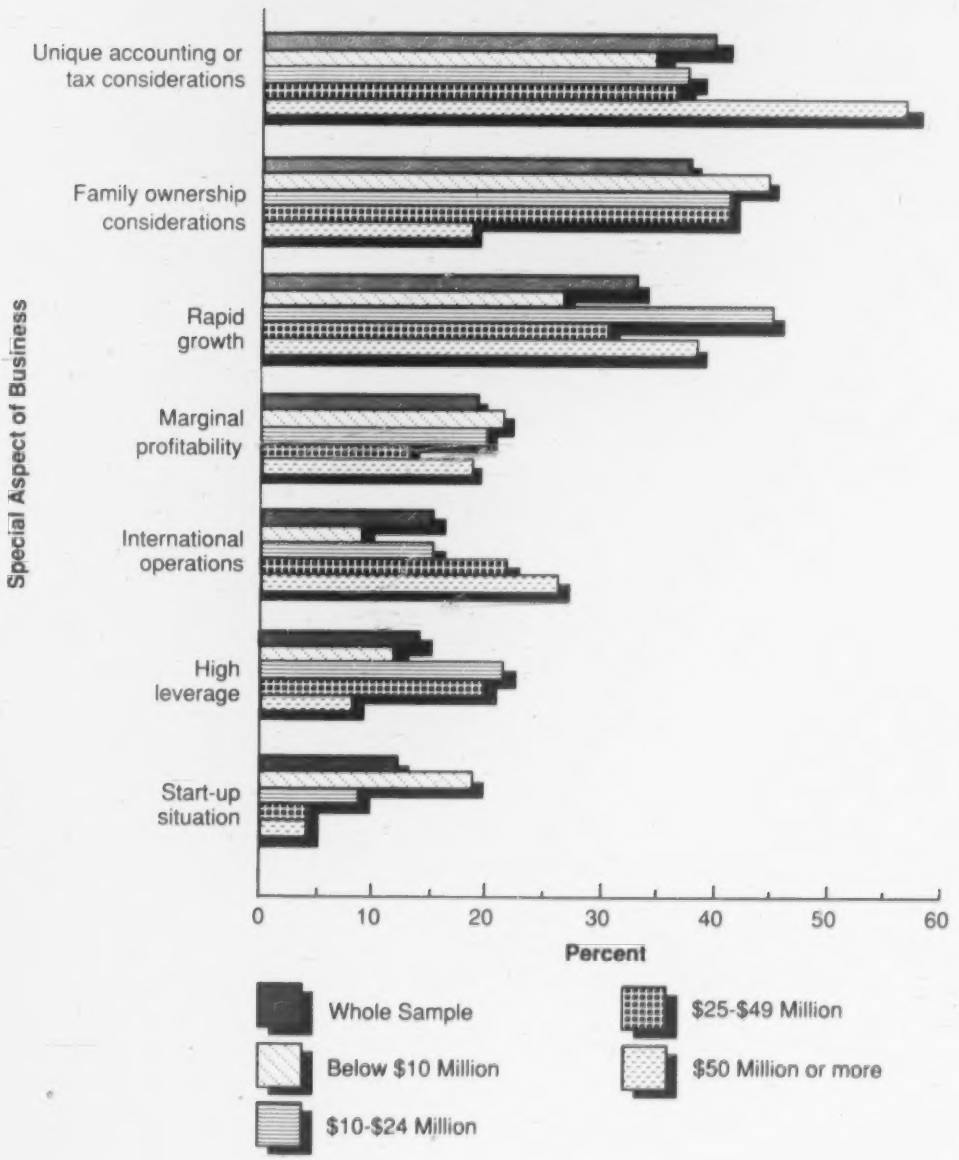
Respondents were asked if there were "any aspects of their businesses that make the accountant's task especially complex or challenging." An analysis of their answers reveals a certain predisposition to select a particular type of accounting firm to deal with these specific issues.

Exhibit 8 offers the list featured in the questionnaire, and presents the responses by the respondent firms' annual sales.

Four of these--rapid growth, marginal profitability, high leverage, and start-up situations--showed *no* independent statistical correlation to the type of accountant chosen. But the remaining three did present such correlations.

Exhibit 8

"ARE THERE ANY ASPECTS OF YOUR BUSINESS THAT MAKE THE ACCOUNTANT'S TASK ESPECIALLY COMPLEX OR CHALLENGING?"



Unique accounting/tax considerations: Exhibit 8 makes it clear that the bigger the company, the more likely it is to report this "special" aspect of business (57 percent of firms grossing $50 million or more annually, compared with 36 percent of all others).

While big firms tend to choose Big Eight accountants in any case, unique accounting or tax problems magnify this tendency. The Big Eight serves 97 percent of the sample's largest firms reporting unique accounting or tax considerations, compared with 79 percent of other large firms. Firms with lesser sales that claim unique accounting or tax problems tend the same way: 45 percent are Big Eight clients, compared with 38 percent of those reporting no such problems.

Family-Ownership Considerations: This is not confined to businesses that report they are "family-owned." Twenty-eight percent of privately held firms and 4 percent of publicly traded companies cited this as a singular facet of their businesses.

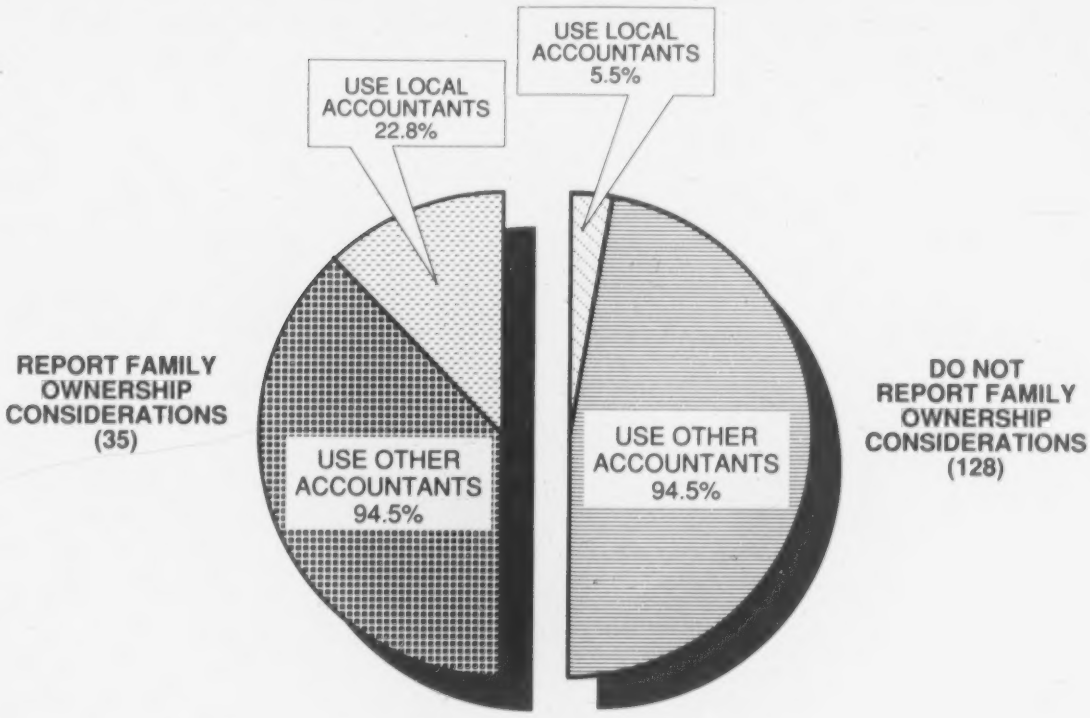
Family-ownership considerations make a difference in selection, tilting the decision in favor of local accounting firms. Among companies reporting family-ownership considerations, 41 percent use local accountants; among companies not reporting the problem, 23 percent have local accountants.

Firms grossing less than $10 million annually are more likely to be family-owned (42 percent, compared with 19 percent of all others). Smaller firms also favor local accountants (52 percent, compared with 12 percent of all others). But the trend holds among *larger* firms that are *not* family-owned (see Exhibit 9). Even among these, where "family-ownership considerations" are cited as a special aspect of the business, there remains a greater tendency to use a local accountant.

International Operations: Companies that are involved in international trade are more likely to choose Big Eight firms. Naturally, the sample's larger firms are more active internationally (see Exhibit 8). But while the Big Eight serves 44 percent of *all* firms with annual sales under $50 million, it serves 54 percent of such firms that report international operations.

Beyond the statistics, we have comments from respondents who answered open-ended questions about why they chose a particular type of accountant. A Big Eight client

Exhibit 9 **LARGER BUSINESSES, NOT FAMILY OWNED**


USE LOCAL ACCOUNTANTS 22.8%
USE LOCAL ACCOUNTANTS 5.5%
REPORT FAMILY OWNERSHIP CONSIDERATIONS (35)
USE OTHER ACCOUNTANTS 94.5%
USE OTHER ACCOUNTANTS 94.5%
DO NOT REPORT FAMILY OWNERSHIP CONSIDERATIONS (128)

complimented his accountant's "responsiveness...ability to change...and the quality of [the] people on the job." Another found it important to be served by "an international firm. Its offices in Europe and Japan were very helpful in our setting up subsidiaries there."

In contrast, smaller accounting firms reportedly take a more active interest in their clients' businesses, and seem more responsive on a personal level. As one respondent put it, "Small firms seem to have a more personal touch." In fact, one of the most enthusiastic endorsements came from a health care firm served by a sole practitioner.

Before leaving the issue, we present a summary of responses to this inquiry as reported by different business categories. A fuller presentation of this data appears in the Appendix.

> "Are there any aspects of your business that make the accountant's task especially complex or challenging?"

Unique accounting or tax considerations (39.8 percent of all respondents). Highest: 57 percent of banking, financial, and

insurance firms; 52 percent of health care/medical firms. Lowest: 22 percent of manufacturers of consumer goods.

Family-ownership considerations (37.9 percent of all respondents). Highest: 64 percent of wholesale/retail traders; 56 percent of manufacturers of consumer goods; 50 percent of manufacturers of industrial goods. Lowest: 18 percent of banking, financial, and insurance firms; 20 percent of health care/medical firms.

Rapid growth (32.9 percent of all respondents). Highest response: 40 percent of respondents in both wholesale and retail trade and health care/medical providers. Lowest: 25 percent of professional services providers.

Marginal profitability (19.1 percent of all respondents). Highest: 28 percent of health care/medical firms; 24 percent of manufacturers of industrial goods; 22 percent of manufacturers of consumer goods. Lowest: 9 percent of professional services providers.

International operations (15.1 percent of all respondents). Highest: 32 percent of wholesale and retail traders. Lowest: 4.6 percent of professional services providers; 5.9 percent of banking, financial, and insurance firms.

High leverage (13.8 percent of all respondents). Highest: 20 percent of wholesale and retail traders. Lowest: 4 percent of health care/medical providers; 6 percent of banking, financial, and insurance firms.

Start-up situation (12.2 percent of all respondents). Highest: 36 percent of health care/medical firms. Lowest: 6 percent of banking, insurance, and financial firms; 8 percent of manufacturers of both consumer and industrial goods.

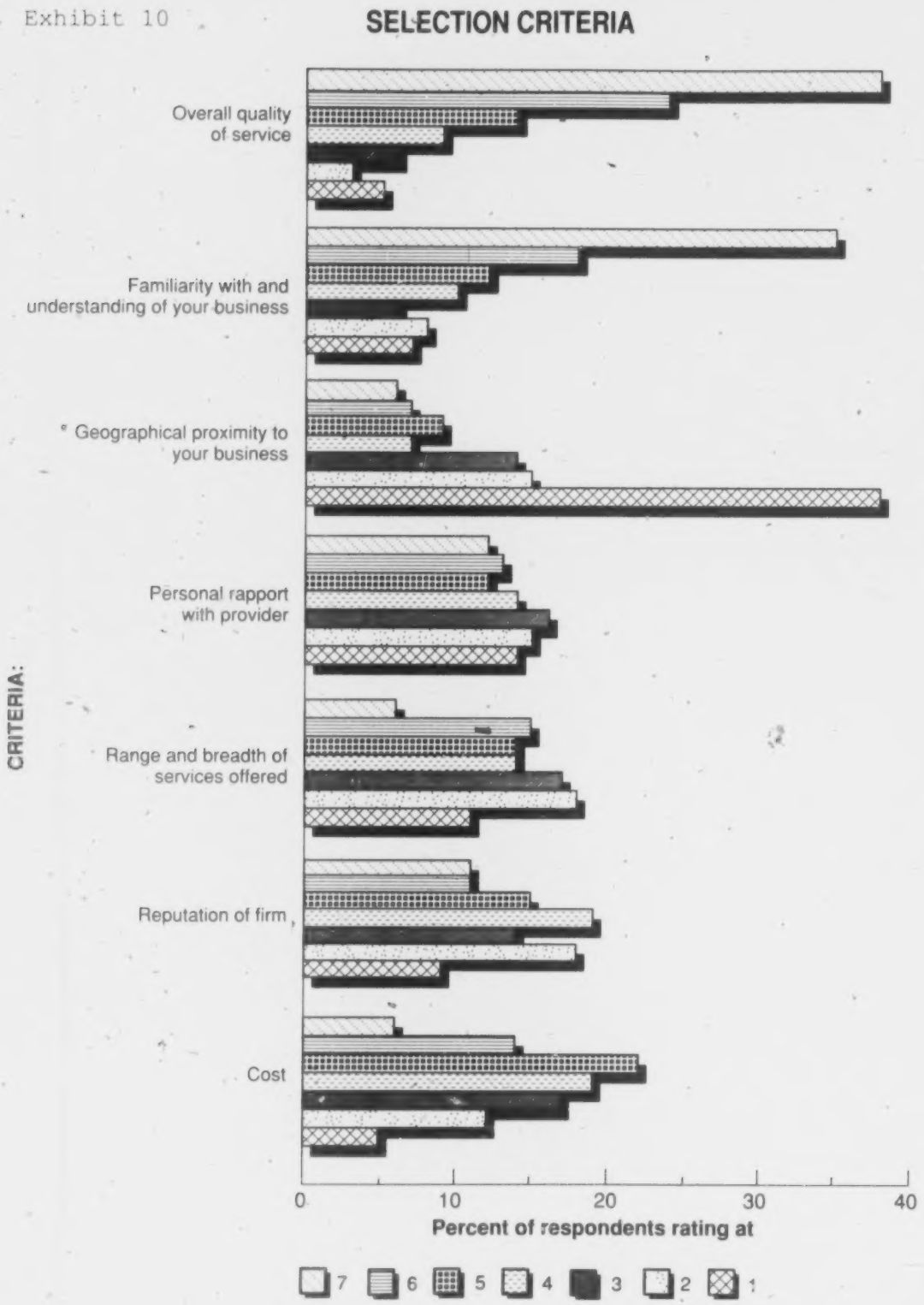
Selection Criteria

Here is the question we posed:

> "If you were to select a new accounting service today, in what order of importance would you rank the criteria listed below? Please place a 7 on the criteria you consider *most* important, a 6 on the next most important, and so on down to 1 for the least important."

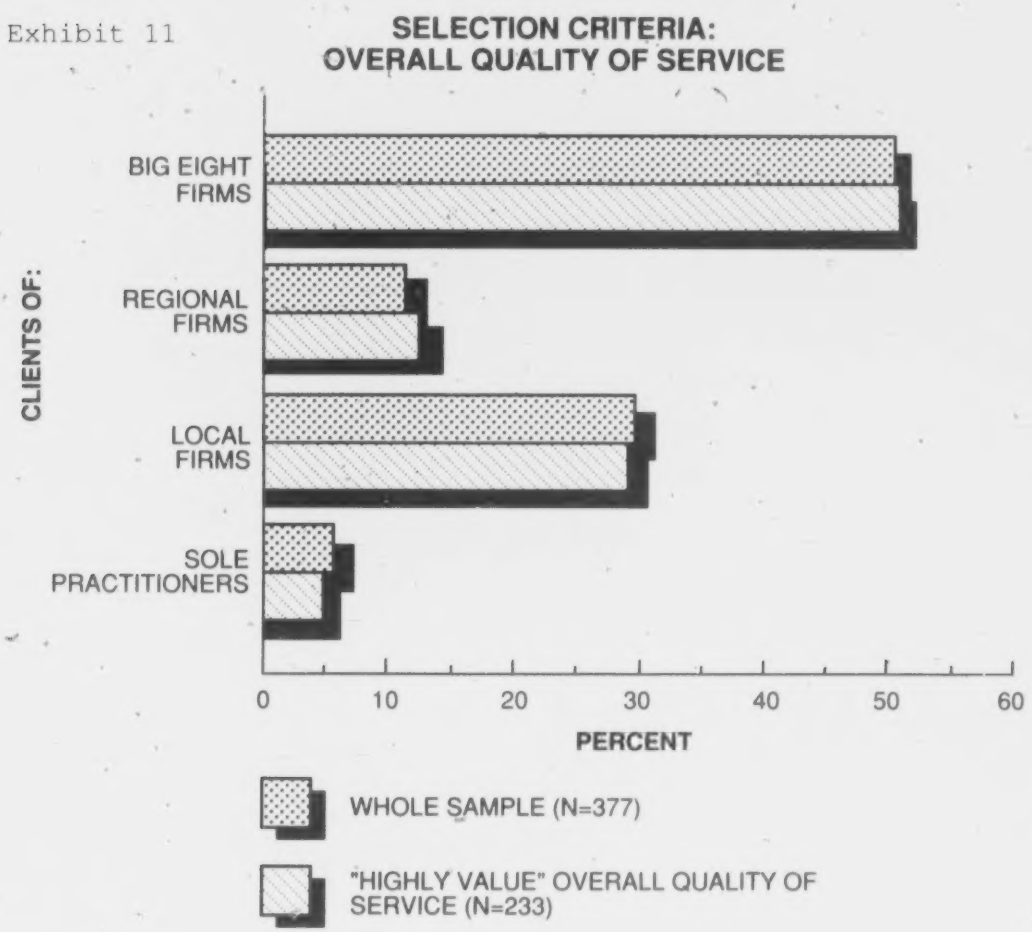
Exhibit 10 presents responses by the whole sample for each of the seven criteria listed.

Exhibit 10


SELECTION CRITERIA
Overall quality of service
Familiarity with and understanding of your business
Geographical proximity to your business
Personal rapport with provider
Range and breadth of services offered
Reputation of firm
Cost
CRITERIA:
0
10
20
30
40
Percent of respondents rating at
7
6
5
4
3
2
1

Quality matters most, cost matters least to our respondents. But are there correlations to the type of accountant that client firms *currently* use? Here we examine that issue, item by item. In each of the exhibits below, we repeat the figures for the whole sample by current accounting service, and match that figure against the percentage of those who "highly value" a particular criteria. "High value" here indicates a ranking of seven or six on the seven-point scale provided.

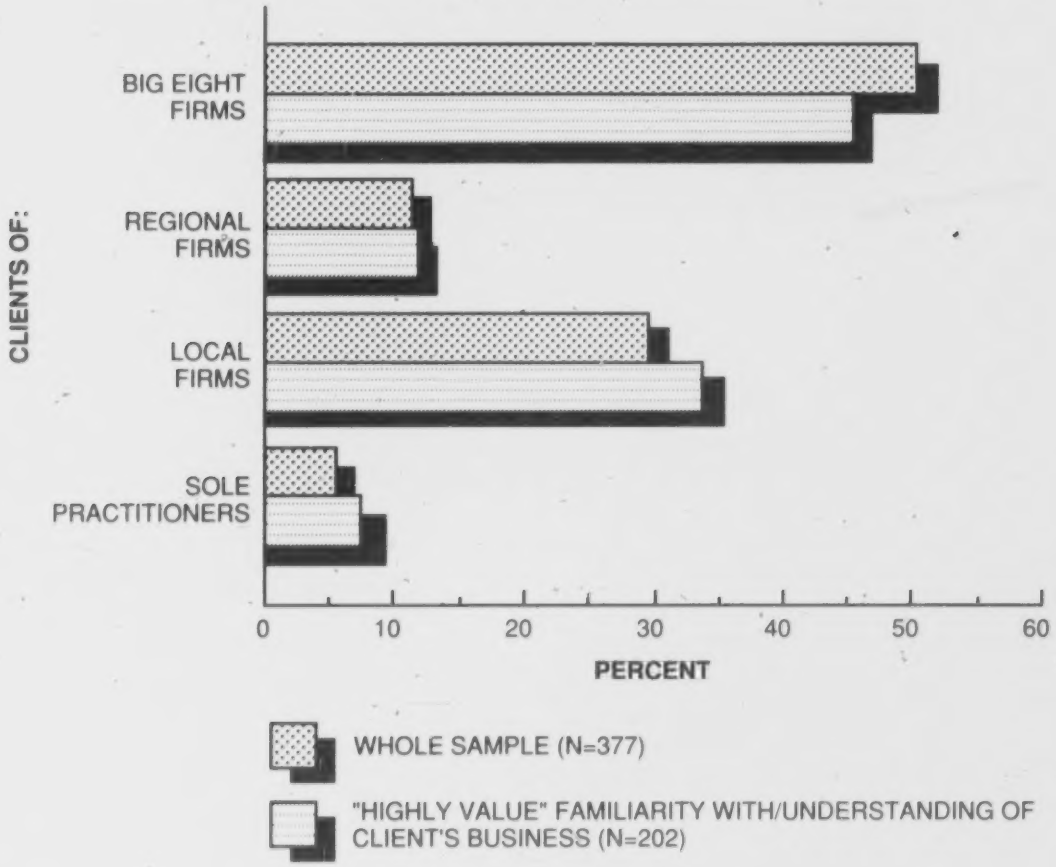
Exhibit 11



Overall quality of service. The data (see Exhibit 11) presents *no* correlation between client priorities on the quality of service and the type of accounting firm they currently employ. Half of the whole sample use Big Eight firms; half of those who ranked quality of service at 7 or 6 use Big Eight firms. The same identity holds throughout the various types of accountancies.

Exhibit 12

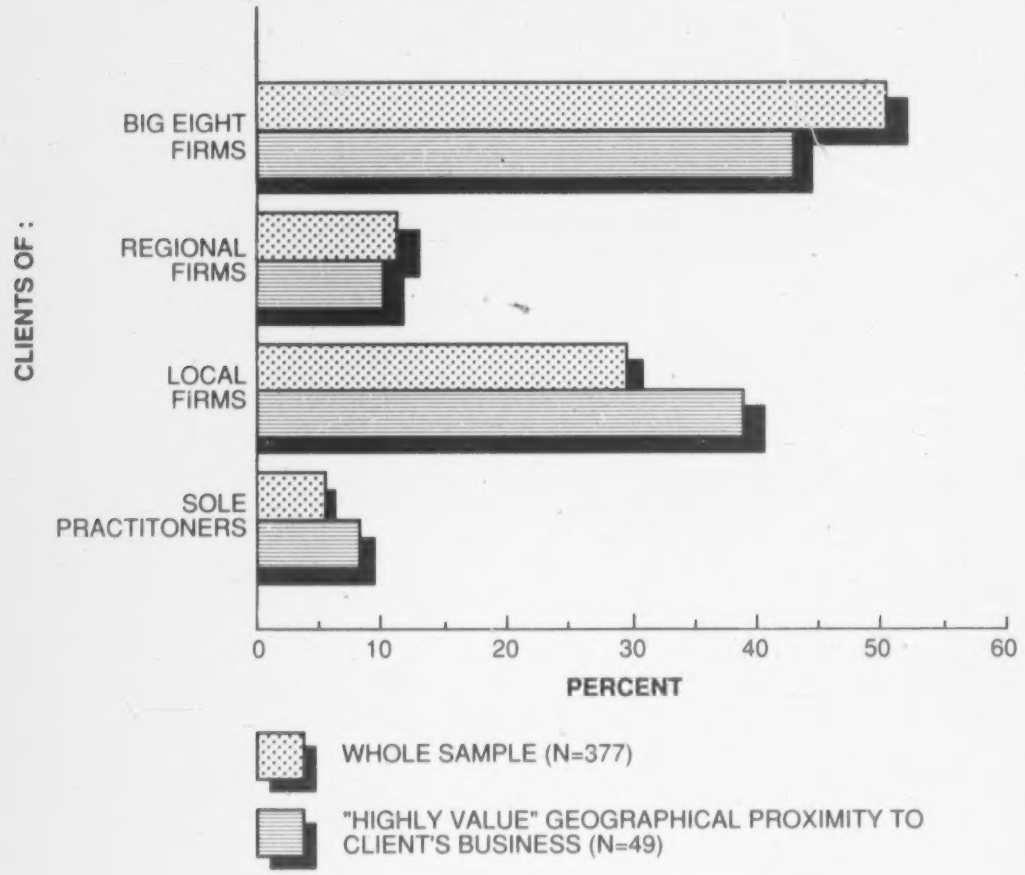
SELECTION CRITERIA:
FAMILIARITY WITH/UNDERSTANDING OF YOUR BUSINESS



Familiarity with and understanding of your business. Those who highly value this item show a slight preference for local accountants or sole practitioners, at the expense of Big Eight firms. In comparison to the whole sample, local accounting firms serve 33.7 percent and sole practitioners 7.4 percent of those who highly value familiarity with the client firm's business.(See Exhibit 12.)

Exhibit 13

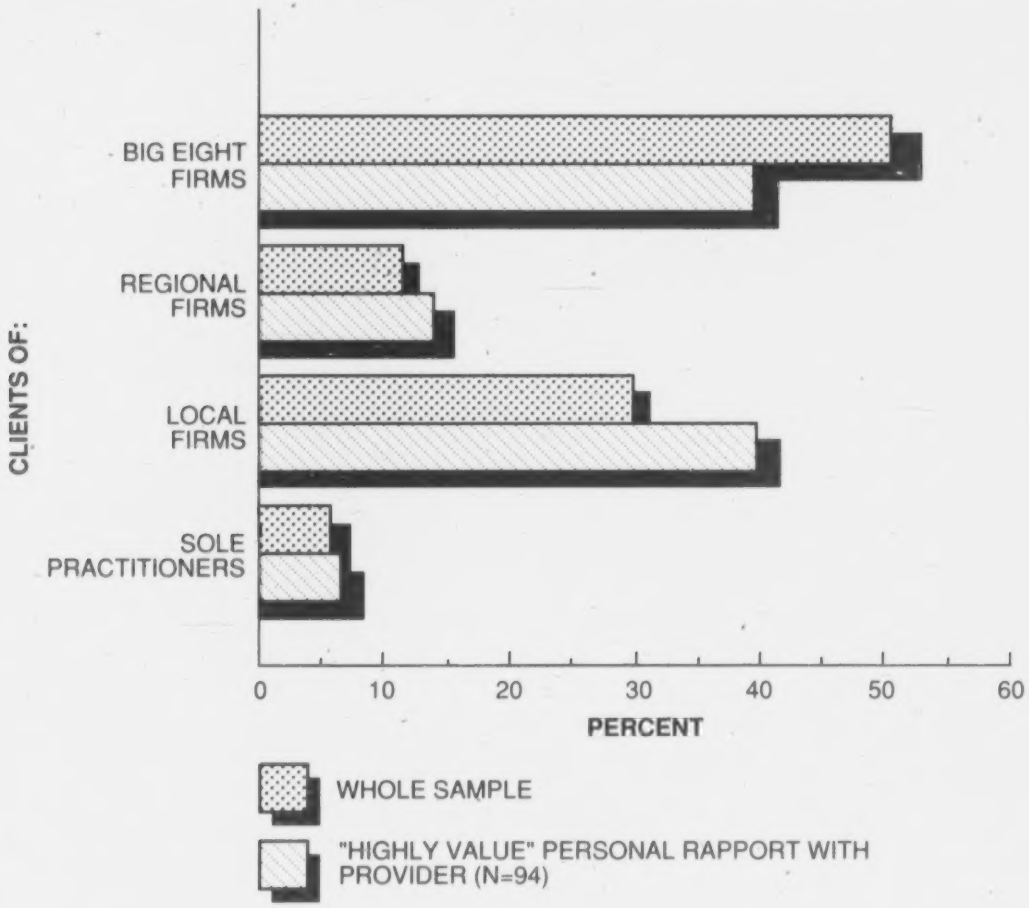
SELECTION CRITERIA:
GEOGRAPHICAL PROXIMITY TO YOUR BUSINESS



Geographical proximity. There is no surprise in finding that those who highly value proximity favor local accountants, while Big Eight representation drops to 42.9 percent in this group. (See Exhibit 13.)

Exhibit 14

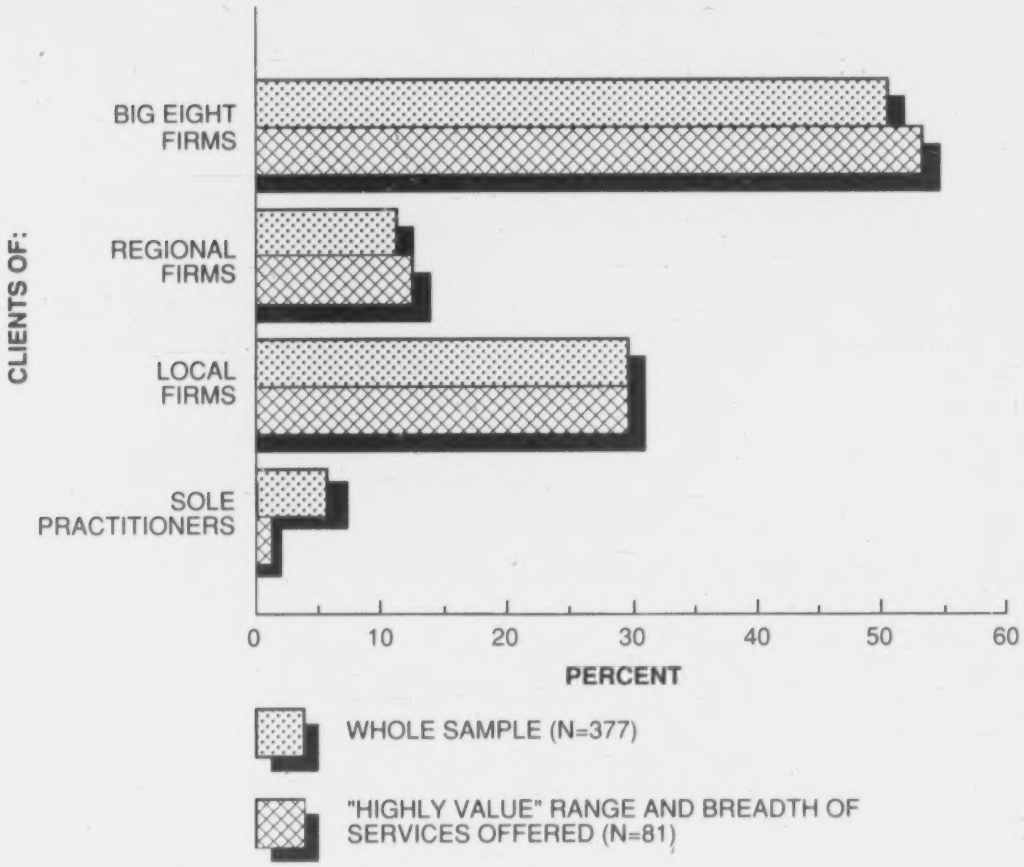
SELECTION CRITERIA:
PERSONAL RAPPORT WITH PROVIDER OF ACCOUNTING SERVICE



Personal rapport with provider. Big Eight firms and local accountancies have an exactly equal share (39.4%) of clients who highly value their personal relationship with their accounting firm, representing a significant increase in favor of local accountants at the expense of Big Eight firms.(See Exhibit 14.)

Exhibit 15

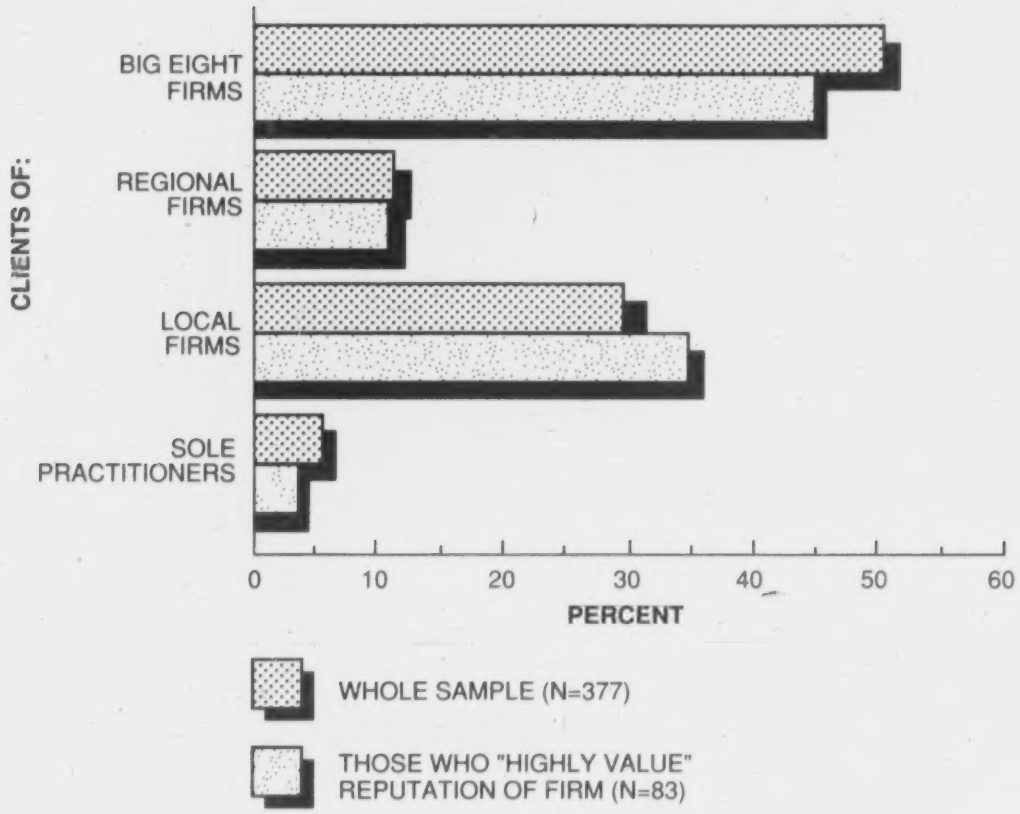
SELECTION CRITERIA:
RANGE AND BREADTH OF SERVICES PROVIDED



Range and breadth of services offered. Surprisingly, the Big Eight does *not* command a significantly greater share of clients who highly value a broad range of services. Big Eight market share in this group is 53.1 percent, against 50.4 percent of the whole sample. Sole practitioners suffer, serving only 1.2 percent of this group. Regional and local firms hold their own.(See Exhibit 15.)

Exhibit 16

SELECTION CRITERIA: REPUTATION OF FIRM

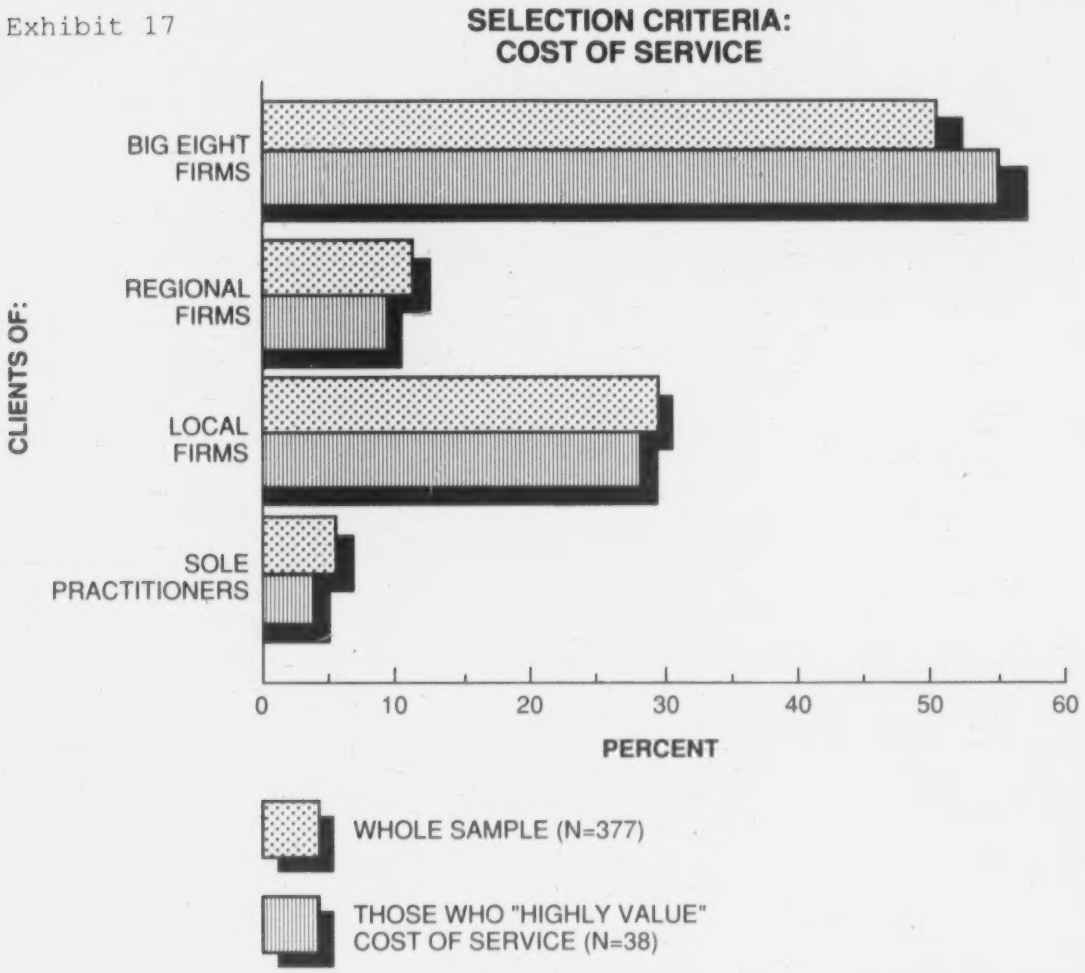


Reputation of firm. The Big Eight do not sell their services to our respondents on the basis of reputation; in fact, this criteria works in favor of local accountants. It should be noted that at the other end of the scale, the Big Eight show comparatively well; they serve 45.5 percent of respondents who place little to no value on reputation.(See Exhibit 16.)

Cost. Economies of scale evidently work in favor of the Big Eight, which serves 55.1 percent of the few respondents (just 20 percent of the whole sample) who place high value on the comparative costs of service.(See Exhibit 17.)

Many of these variations are close to or actually within the margins of error for each subgroup that told us they "highly value" a particular element among our selection criteria. "The dog did nothing in the nighttime," said Watson; "That was the curious incident," replied Sherlock Holmes. In

Exhibit 17



selecting an accounting service, respondents find that any variety of firms can meet the criteria they consider most important. The largest variation in the data concerns the degree of personal rapport that clients feel with their accountants, and here the figures dramatically favor local accountants. As we shall see in Chapter 3, where we report client evaluations of their current accountancies, smaller firms can hold their own against the competitive might of the Big Eight.

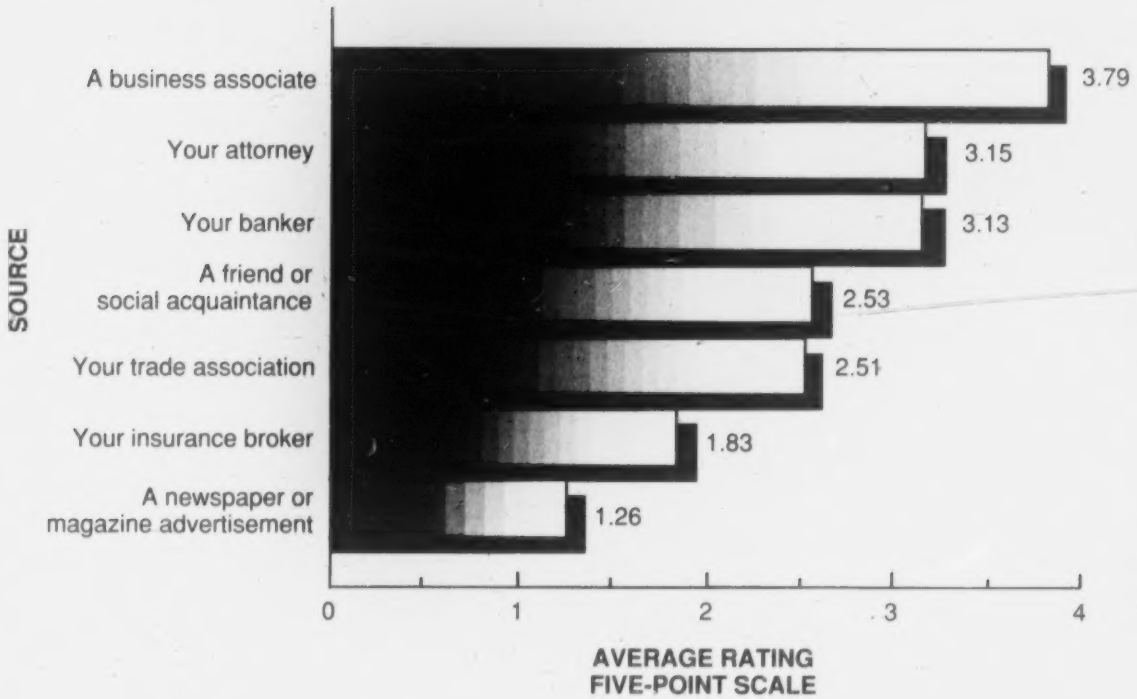
Reliability of Sources

Whom do you trust? This is the essence of the next inquiry, which read:

> "To what degree would you rely upon the sources listed below in choosing a new accounting firm? A 5 would indicate the highest rating, a 1, the lowest rating."

Exhibit 18 displays the results for the whole sample.

Exhibit 18 **RELIABILITY OF SOURCES OF INFORMATION IN SELECTING A NEW ACCOUNTANT**



Sixty respondents wrote in at least one additional source, and 39 of these write-in responses were rated at the topmost value of 5. Interestingly, clients of Big Eight and regional firms were twice as likely to write in "other" sources of information as clients of local accountants or employers of sole practitioners.

Foremost among these write-in responses, offered by five respondents, was "direct interview." A dozen others emphasized the word "personal"--for example, "personal acquaintance," "personal assessment," "personal knowledge of accounting," "personal knowledge of partners." Others stressed "individual" or "in-house" evaluations of competing services; one respondent wrote in simply, "My own judgment," and two others wrote the single word "self." Three questionnaires indicated a competitive bidding process.

In the essay that follows, Ed Suarez makes further reference to these findings, while offering valuable guidelines for the selection process. Basing our comment upon the data alone, we may say that the field is wide open: unless organizational size is the sole determining factor in the choice of an accountant--and it need not be--clients ought not limit themselves to a particular type of accounting firm.

THE SELECTION PROCESS: LESS A SCIENCE THAN AN ART
BY EDWARD A. SUAREZ

One of the small but fitting ironies of business life is that choosing an accounting firm cannot be reduced to a formula. This may owe more to the diversity of American business--different products, different industries, different growth rates--than to the diversity of accounting firms. Either way, finding an accounting firm for a long-term relationship depends less on science than judgment.

Besides combining objective review with intuition, selecting an accounting firm makes demands on management's time. If the managers responding to our survey are typical of their peers, they spend nearly every working hour on day-to-day operations. Having the time to search for an accounting firm must seem almost a luxury.

The goal, then, is to make the best possible use of management's time. And the shortest, most logical route to achieving that goal is a *systematic search.*

This kind of search begins with an investment of time (of course!) in defining your company. Management should be able to describe the company's reason for being, its goals, and its general operating style. The idea behind this self-description is simple: The better you know who you are, the more able you will be to identify the right accounting firm.

In practical terms, management should subject every aspect of operations to thorough and unbiased analyses. Past performance, industry health, products, services, growth patterns, planned new-product introductions, capital projects, financial positions, and financial needs all have a bearing on the company's present and future.

In the end, focusing on these operating details will help clarify your needs for accounting and business-consulting services. Such homework, be advised, is not for the fainthearted or squeamish. It often provokes pointed debate--some conducted at surprising volume. But without it, management will spend much more time choosing a firm.

Sorting Out the Competition

Which brings us to the firms competing for your account. Having the right accounting firm may not *always* spell the difference between triumph and disaster. The right firm can, however, make the triumphs more enduring and limit the

disasters. Said another way, your accounting firm contributes in no small way to the financial health of the enterprise. If you do business in even a moderately large American city, there may be hundreds of firms--ranging from Big Eight offices to sole practitioners--to solicit your business. Making some inquiries and imposing some arbitrary but reasonable standards will reduce the number of prospective firms to a relative few.

Each firm you review will have objective strengths and weaknesses; each will also project something you like or dislike on a subjective basis. Unfortunately, there is no reliable, systematic way to compare and evaluate these differences.

But human nature being what it is, many executives don't want merely the best available--they want the *perfect* match. (And who can blame them? Many aspire to run the perfect company.) This invites endless examination of minute details that accounting firms can supply in quantity. The need to make a decision becomes mired in claims and counterclaims, arguments and counterarguments.

Companies conducting systematic searches avoid these problems by remembering that the goal is to make the most of management's time. One firm will usually stand out as best overall; most of the time, that's the firm management should choose. Beyond making a thoughtful decision, there's no way to know in advance whether management's decision is correct. Only time and experience can render that judgment.

What can help make the best decision is using the other two elements of the systematic search: *fundamentals* and *fit*.

Fundamentals

"Investigate! Investigate! Investigate!" wrote one respondent to our survey. We endorse both the substance and the spirit of his advice. That said, we would ask that an investigation must have a starting point.

We call that starting point the *fundamentals*. Any accounting firm that wants your business must possess the fundamentals. Management should agree *before interviewing the first firm* that the fundamentals are beyond discussion, beyond debate, and beyond negotiation.

The first fundamental: *Talk first with those firms that have direct experience with your kind of business.* Should that

prove impractical, *look for a firm with direct experience in your industry.* Failing even that, *interview firms experienced in the most closely related business or industry.* Using this standard of selection obviously winnows out a large number of prospective accounting firms. More important, accounting firms with direct experience will spend far less time defeating the well-known and expensive learning curve. A firm that knows industry nomenclature, procedures, and accounting standards can direct its attention to learning the nuances of your company. (A widely overlooked fact: Every business in a given industry does things differently. Don't belittle the difficulty of learning how your company does business.) Under normal circumstances, an accounting firm with direct experience should make substantial contributions to your business sooner than a firm without experience.

Using a firm with industry-specific expertise pays other, more subtle dividends as well. Accounting firms familiar with your industry can offer insight on problems common to the industry and help your company avoid financial pitfalls. Such firms can also render financial statements for management and financial sources more efficiently.

Indeed, an accounting firm that knows both your company and its industry can be a potent advocate when you seek financing from banks and other lenders. The accounting firms that have a specialized knowledge of a particular business or industry tend to treat that expertise as an investment. In general, they are in a better position to keep up (and do a better job of keeping up) with changes and trends in a given industry. This in turn allows them to be better advisors to their clients and to be more active in helping clients shape their plans.

Words in Print

Many accounting firms use their industry-specific experience to publish newsletters and bulletins on industry developments for their clients. Three-quarters of the companies in our survey received such materials, and most of our respondents seem to find them at least somewhat helpful. The average rating of importance for newsletters and bulletins, 3.54 on a five-point scale, was good enough to claim second place out of seven services listed in our questionnaire. (A full listing of the importance of various extra services appears in Chapter 3.)

Given all of the above, it's not surprising that 35 percent of our respondents said that "familiarity with and

understanding of [our] business" was the most important standard for choosing an accounting firm--second among seven criteria. Even so, there exists a kind of standing temptation to stray from the straight-and-narrow path of choosing firms with direct experience. Part of the temptation comes from an accounting firm's desire to broaden its client base (a natural impulse). Most firms are more than happy to show a company their experience in *related* industries, even though there may be significant differences in operating or accounting practices.

Management, equally, can lose sight of the importance of specific business knowledge. Every company (almost by definition) is unique in the way it does business. And that uniqueness virtually guarantees that no firm will offer a complete, absolute match. To some managements, this opens the door to considering other qualifications.

Other companies, either by the nature of their business or their location, may be mismatched with the local accounting firms. A regional nursing-home operator, for example, may well have to choose between a firm with major hospital experience, a second firm that specializes in hotels, and a third, successful firm of generalists.

Not an easy call, to be sure. But except in such extreme cases, you should remember that the accounting firm's failure to learn the client's business was one of the most common complaints voiced by our respondents.

The Bubble Reputation

One respondent gave excellent advice: "Find the [accounting firms] that have the most experience in your business and choose the one with the best reputation." Not words to live by, perhaps, but they'll certainly keep your systematic search for an accounting firm on track.

That respondent hit on our second fundamental as well--the reputation of a firm. A firm's reputation is built upon the intangibles of opinion and perception. But the reputation of the firm you choose may be as important to your company as the services it provides.

At the very least, you expect your accounting firm to be ethical, honest, and aboveboard. These qualities are central to trust, which precedes the business relationship. Without

trust, every part of the relationship comes into question--billing invoices, momentary judgment, strategic advice, everything.

More important, your accounting firm's reputation should improve and enhance your company's credibility within the business community.

By its reputation, your accounting firm should confirm your company's stature with your existing financial sources. The reputation of your firm should also serve as a bridge to new lenders, credit-rating organizations, and other institutions vital to your company's current and future operations.

This might sound like a call to hire the largest accounting firm in the vicinity. Not at all. There are excellent accounting firms with outstanding reputations all over the country. Some are brilliant sole practitioners, others are far-flung Big Eight firms, many more fall somewhere in between. Size is not the issue. What matters is how your key business partners--lenders, customers, suppliers--regard the firm you select. Gold, whether in mining or accounting, is where you find it.

Curiously, just 11 percent of those responding to our survey said "reputation of the firm" was the most important characteristic in choosing an accounting firm. (See Exhibit 10, "Selection Criteria," above.) An additional 11 percent said it was the second most important. Taken at face value, these results would disturb anyone who thinks about accounting seriously. The reputation of the accounting firm should be as important as direct experience with the prospect's business.

And in fact, the data may tell us exactly that. It all depends on what our respondents meant when they rated "overall quality of service" as the most important qualification.

Our question began: "If you were to select a new accounting service [firm] today . . ." The operative word here is "new," which implies *no recent experience* with the firm under consideration. Management can check with a variety of sources, including current and former clients, about the quality of the firm's service. Management can read the professional biographies of the accounting team, and it can listen to the claims made by the firm about service.

What management cannot do, however, is foretell the quality of service. Judgments about the quality of service belong to the future, after a relationship has been established.

Is a busy executive filling out a questionnaire likely to make that distinction? No. What is more likely: Our respondents read "overall quality of service" as shorthand for "*reputed* overall quality of service." This seems even more probable when you consider that "overall quality of service" was first (instead of sixth or seventh) on the questionnaire's list of criteria.

Common sense further tells us that any firm's reputation rests in part on its past performance--on how well the firm has provided service to its clients. A statistician would advise you to expect a high correlation between the quality of service and the firm's reputation. If this reading of the data is right, we might not be too far off the mark by simply pooling the responses to quality of service and reputation of the firm. Adding the 38 percent of our respondents who put overall quality of service at the top of their list to the 11 percent who chose the firm's reputation gives us 49 percent who think some dimension of reputation is important.

Promises Made — Promises Kept?

Our final fundamental, *professional competence* , doesn't even make the list of criteria for choosing a firm. This is a comforting thought for accountants, but management should always raise the issue. Can the firm deliver the services it says it can deliver? Since Certified Public Accountants must meet rigorous national standards set by the American Institute of Certified Public Accountants, and must keep current with the profession, you are assured of a certain minimum technical competence in tax and audit work.

As with any other large group of Americans, though, you will find great diversity among CPAs. Some, through training or talent, are better than others. Some take their jobs more seriously than others. Some are more attuned to their clients' needs.

What you, in carrying out a systematic search, must be aware of is this: The professional competence and bearing of your accounting firm can directly affect your business. When you have a rigid deadline to meet, for example, or urgently need an opinion about a financial transaction. Fortunately, even a cursory inquiry into a firm's background is likely to reveal both its technical competence and its sense of urgency.

Serious problems with competence can also arise on the nonaccounting side of a firm. Most accounting firms also

offer broader services, which can range from general business consulting to narrow skills in a number of business specialties. In many instances, there are no national standards for these skills comparable to the licensing of accountants.

Consulting services are offered by accounting firms under a variety of names. Some firms prefer generic labels like "management services"; other firms try to establish a separate identity for their consulting operations by calling them "XYZ Consultants." The accounting firm usually makes it clear that these services are connected with the firm itself. But unless your company's systematic review of potential firms specifically includes these specialties *as they apply to your business*, you're buying a pig in a poke.

Small to medium-sized companies in particular must pay careful attention to possible problems of professional competence in consulting services. Large businesses have the resources to review and retain big-time management consulting firms. Smaller companies usually turn to their accounting firms for business advice.

Our survey respondents confirm the appeal of practical, nonaccounting consulting services offered by accounting firms. Those in our survey rated the importance of general business consulting at an average 3.52 on a five-point scale.

Unfortunately, bad management advice can inflict extensive damage on smaller companies rather quickly. To assure the nonaccounting competence of a firm, the management of a small or medium-sized company must identify the services it might need and talk with others who have used those services. In other words, do your homework and hope you've done it well.

Fit

How well an accounting firm fits your company will be determined by how well management pursues two lines of disciplined inquiry. The first line relies on making sure management has done the basic spadework to identify the right accounting firms. The second requires a feel for your company and the accounting firm under consideration. Again, neither is wholly art nor science, but each is central to a systematic search.

At the end of *Casablanca*, the local prefect orders his subordinates to "round up the usual suspects." Your search

will be something like that: a series of talks with various known sources to determine the fit between your company and a prospective accounting firm.

Your talks with these sources should be informal, but controlled. They should begin with a general discussion of the capabilities of accounting firms in the area. They should then move to a more pointed examination of how well an individual firm might serve your company. As far as discretion allows, you should conclude with a frank exchange of each firm's strengths and weaknesses.

Management should develop a check-off list of sources to be questioned. Typically, these sources will include business associates, bankers, lawyers, friends, and insurance brokers that have formal or informal ties to your company and its officers. Other sources, such as trade associations, can also be helpful.

Exhibit 18 above shows the sources our respondents were likely to rely upon. Business associates led the list with an average 3.79 rating on a scale of 5 (thus offering circular proof that accounting is a referral business).

Actually, the advice of business associates should be treated as a kind of pass-fail exam. Because all businesses share some common characteristics, your peers in business can offer valuable commentary about how well their accounting firms perform generally.

If your business associates offer universal praise for one firm and comprehensive condemnation for another, you must take what you hear seriously. Words like "tardy" or "inept" should set off alarms. But listen mainly to your business associates to define the qualities that characterize any given firm.

To put it another way, an associate's views might qualify it for selection. Remember that by definition half of American businesses turn in below-average performances. You therefore have a fifty-fifty chance of taking advice from someone whose company underperforms in its industry.

Further Recommendations

High ratings given in our survey to other sources yield to less complicated interpretations. Bankers scored third with

an average 3.13 rating. This makes excellent sense; if you want to influence bankers, hire a firm that bankers respect.

Since a company's criteria for hiring an accounting firm more or less apply to hiring law firms, it should come as no surprise that recommendations from law firms scored an average 3.15. Like bankers, most law firms are familiar with a number of accounting firms and have a good feel for their abilities. Scores for the back of the pack are oddly jumbled. The leader for the also-rans is the advice of a friend or social acquaintance, with an average 2.53 rating. Were business associates not excluded from this category, this rating might be understandable.

As it stands, that undefined body of acquaintances rates higher than endorsements from either trade associations (2.51 average) or the company's insurance broker (1.83), each an excellent source of advice. This goes somewhat against the grain of expectation. That newspaper and magazine ads lag behind all other sources with an average 1.26 rating does not.

What emerges from these statistics is a fairly conventional portrait of American business. Managements tend to seek rational solutions, but not to the point of obsession. Most mix raw impressions with the results of partially systematic searches. Predictably, some managements are happy with the accounting firms they select while others aren't.

Prospecting

After sounding out a number of sources for advice, management is ready to upgrade some of the suspects to prospects. Your inquiries should reduce the number of contending firms from a half dozen or so to two or three of real interest. No cheating is allowed at this point. Once a firm has been removed from consideration, it's out of the running for good. Rather than wasting time and energy debating the virtues of marginally qualified firms, management should address the task of evaluating the firms now on the company's short list.

It should begin to do so by reviewing the results of interviews with outside sources. Ambiguities about a firm's performance and contradictory experiences with a firm among outside sources deserve additional follow-up interviews. (Any unresolved issues should be noted and discussed with the representatives of the firms under consideration.)

Armed with this information, your company's management is ready to pursue the second line of inquiry. This line stresses management's perception of the company, its operating style, and the values it wants an accounting firm to reflect. We've already seen that most companies emphasize the fundamentals--familiarity with the company's business and a combination of a firm's reputation and quality of service.

But our respondents can still be mildly shocking. Take, for example, the middling rank (fourth) they assign to the importance of their personal rapport with the firm's professionals. Only 12 percent said personal rapport was the firm's most important qualification.

Almost anyone with experience in public accounting will say rapport is far more important than our respondents claim. As a practical matter, the chemistry between the company's management and the firm's representatives stands at the center of smooth day-to-day workings and a productive long-term relationship.

Perhaps those responding to our survey simply didn't remember (or project) the need for rapport properly. One of our respondents offered an abstract, almost detached view of the matter, saying "quality people" provide quality service. Fair enough, but what constitutes a quality person? Will you know a quality person when you meet one? When he's wearing a lime-green leisure suit and saddle shoes? Maybe, maybe not.

Another respondent offered more practical counsel, advising management to "see if they speak your language." Taking that advice a step further, a different respondent asserts that management should evaluate potential firms according to their "attitude [and] their approach to meeting the client's goals. Are they going to be accommodating and understanding?"

Yet another respondent cautions those choosing an accounting firm to "spend business and social time with the audit partner and the audit manager who would be assigned to you."

With such a variety of thoughtful responses, it's reasonable to think there's more than meets the eye in ranking personal rapport. And again we can interpret the responses in a slightly different way.

Team Players

As far as a company's management is concerned, the accounting firm's account team *is* the firm. Management's perception of

the professionals assigned to the account thus becomes identical with the quality of service offered by the firm. On the basis of practical experience, there can be no question that rapport and feeling about the quality of service are correlated to some degree.

Whatever the correct interpretation of the data, the moral is this: Each response is right, each is wrong. Your company may do best working with shy people of technical genius. Or you may prefer to work with outgoing personalities who can banter with corporate officers. Doing the homework on your company and its needs before reviewing firms--knowing your company in detail--can make such decisions much easier.

Our respondents reserved their lowest rankings for geographic proximity and cost. An identical 6 percent rated these as the most important criteria for firm selection.

Proximity really isn't much of an issue. But if your account is relatively small and your company is more than an hour's drive or so from your accountant's offices, you may end up feeling frustration with the level of service and responsiveness.

Our respondents' low ranking of costs reflects an inherent wisdom. The value of the accounting services rendered should always outweigh the dollar cost of delivering the service as an element of selection. Also, as one respondent noted, it is not unheard of for first-year fee estimates to be "buy-ins to [getting] your business."

Stepping back and looking at our respondents' ratings for the selection criteria reveals a general pattern comparable to that of referral sources. The overall direction of the ratings is largely, but not wholly, logical and rational. Given that both sets of ratings tend to run in the same direction, it seems reasonable to say that managements engage in common-sense, but not rigorously systematic, searches for accounting firms.

Taking It All In

One last cautionary word: Keep things in perspective. At some point in your review of accounting firms, you will visit their offices. Be impressed by the lobby. Feel the plush carpet underfoot. Enjoy the burnished glow of the wood paneling. Admire the patina on the doorknobs.

In the conference room, regard the craftsmanship of the table. Notice the hush in the room. See how well turned out their team is. Wonder at the senior partner's perfect shoe shine. Marvel at the bone china that holds your coffee.

Savor this experience. Drink it in. Revel in what it has to offer. Then, on the way back to the office, push this memory to the back of your brain. Remember that virtually anyone can buy (or, in some cases, rent) the trappings of success. You are conducting a search for an accounting firm, not running a beauty contest, and the two are very, very different.

3

Evaluating An Accounting Firm

As Ed Suarez points out in the essay that makes up the second part of this chapter, an evaluation of one's current accounting service is at heart *intuitive*, rather than scientific. While an evaluation process may provide some statistical gauge of the accountant's performance, judgments on the overall client-service relationship are ultimately subjective.

Nevertheless, the AMA questionnaire featured several inquiries that yielded informative data on customer satisfaction. We begin by reporting the results of those inquiries.

SURVEY FINDINGS

We used a list of five specific criteria to gather performance ratings, as well as a general inquiry about overall performance. Following that, we offered a checklist of seven "extras" to basic service, and asked two questions about each "extra": Did the accountant provide the service? How important was the service to the client? (We also asked about specific *accounting* services--e.g., preparation of income tax returns, monthly bookkeeping, and audits and reviews, among others--but we reserve those findings for Chapter 4, which reports on accounting fees.)

Performance Ratings

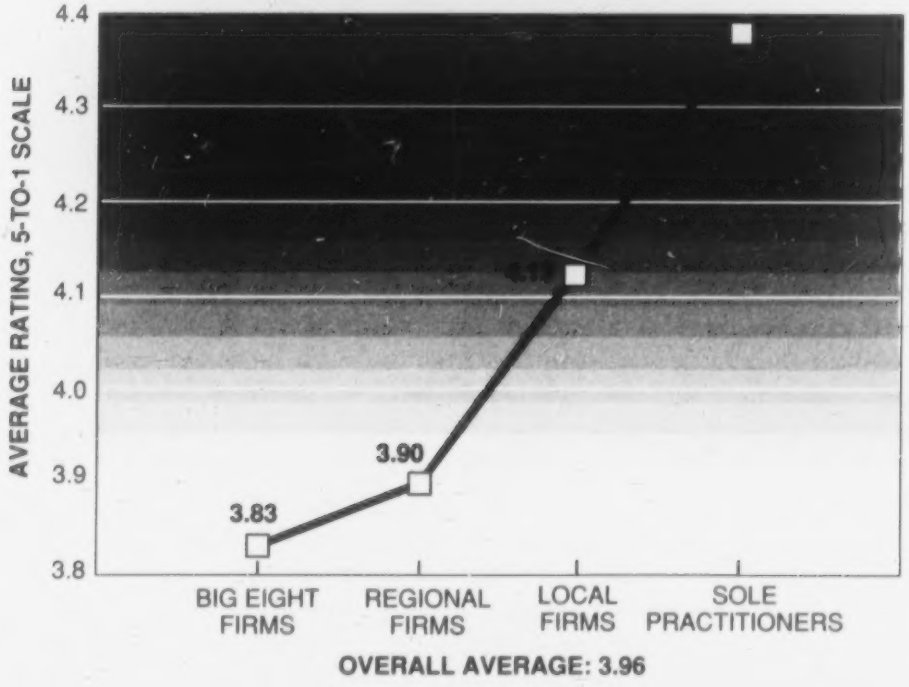
The inquiry read, "How would you rate your current accounting service in the particulars listed below?" We used a five-point rating scale, with 5 the highest rating, 1 the lowest. The criteria were:

- Understanding your business (average performance rating by the whole sample: 3.96)
- Efficiency: on-time delivery of services (3.75)
- Accuracy and thoroughness (4.04)
- Flexibility: ability to deal with exceptional situations (3.93)
- Breadth and range of services (3.87)

Our signal finding: In every regard save one--breadth and range of services--the Big Eight scored below-average ratings.

As Exhibit 19 shows, the highest marks for understanding the client's business go to sole practitioners. Their scores match or better the Big Eight across business lines, and compare favorably with the ratings for local accountants in most business categories.

Exhibit 19 **UNDERSTANDING YOUR BUSINESS**



Among business categories, wholesale and retail traders give their accountants the highest average rating (4.20) in understanding their business. This category favors using local accountants (48 percent of the traders use them, compared with 28 percent of all other business categories). But--and it is a large *but*--those traders who *do* use Big Eight firms rate them highly, averaging 4.22. Traders using local accounting firms rate them at an average 4.33.

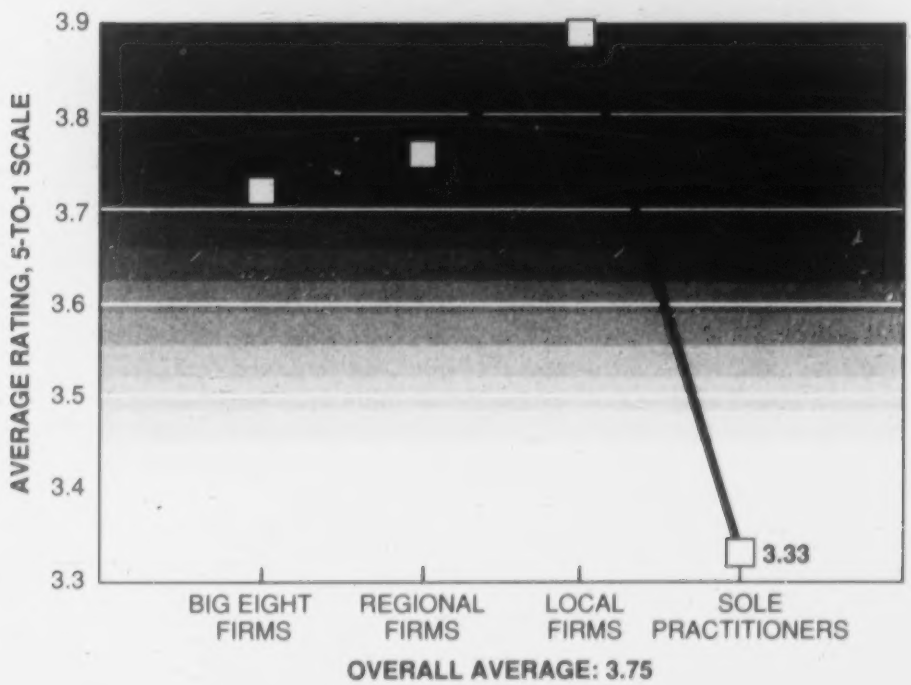
Across other business lines, local accountants outscore the Big Eight in every category save one. Health care and medical providers that use Big Eight firms give them an average rating of 3.91, compared with 3.38 for local accountants.

The overall average of 3.75 for efficiency, defined as "on-time delivery of services," is lowest among the five criteria listed. As Exhibit 20 makes clear, sole practitioners score the lowest marks in this low-rated area.

Given the relatively small numbers of respondents in each group when we divide the sample by both business lines *and* the type of current accountancy, the differences between

Exhibit 20

EFFICIENCY: ON-TIME DELIVERY



scores are significant only when they are dramatic, i.e., when they approach half a point on the rating scale. Thus, the difference between averages of 3.75 and 4.00 is within the margin of error for these subgroupings; the difference between 3.50 and 4.00 is noteworthy.

Manufacturers of consumer goods are happiest with their accountants' performance, averaging 4.08 on the five-point scale. Again, local accountants outscore the Big Eight in every business line save one: wholesale and retail traders who employ Big Eight firms grant them an average 4.00 rating on efficiency, compared with a 3.50 rating for local accountants.

In a later section of the questionnaire, we asked, "How many weeks elapsed from the beginning of your most recent audit to the time the report was delivered?" The responses are displayed in a box, "You'll Have It Thursday," which appears in Mr. Suarez' following essay on evaluating accounting services.

The close grouping of scores for accuracy and thoroughness (see Exhibit 21) leads to the conclusion that respondents perceive no essential differences among accounting services

Exhibit 21 **ACCURACY AND THOROUGHNESS**

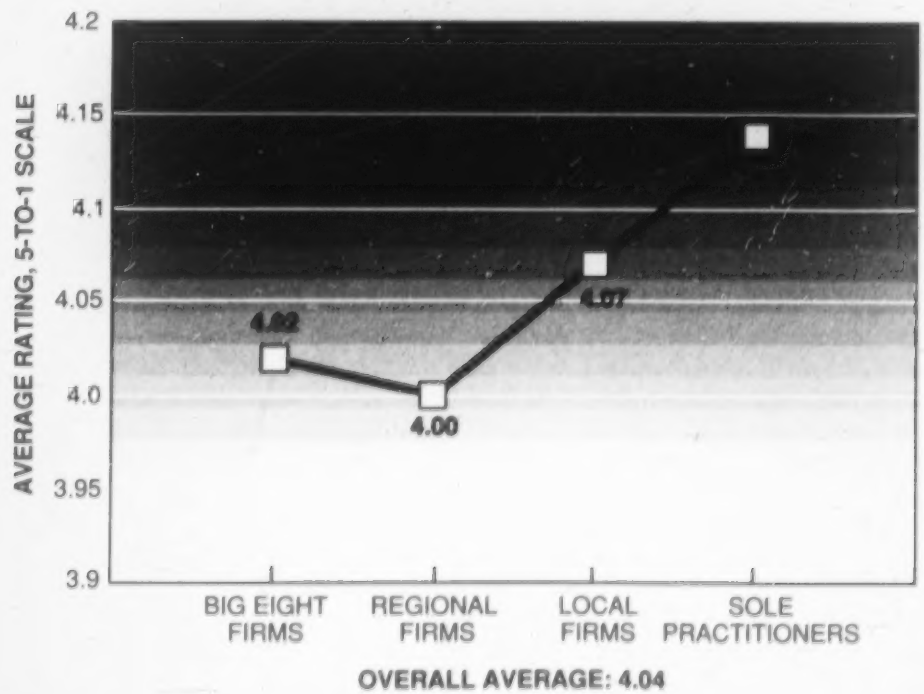
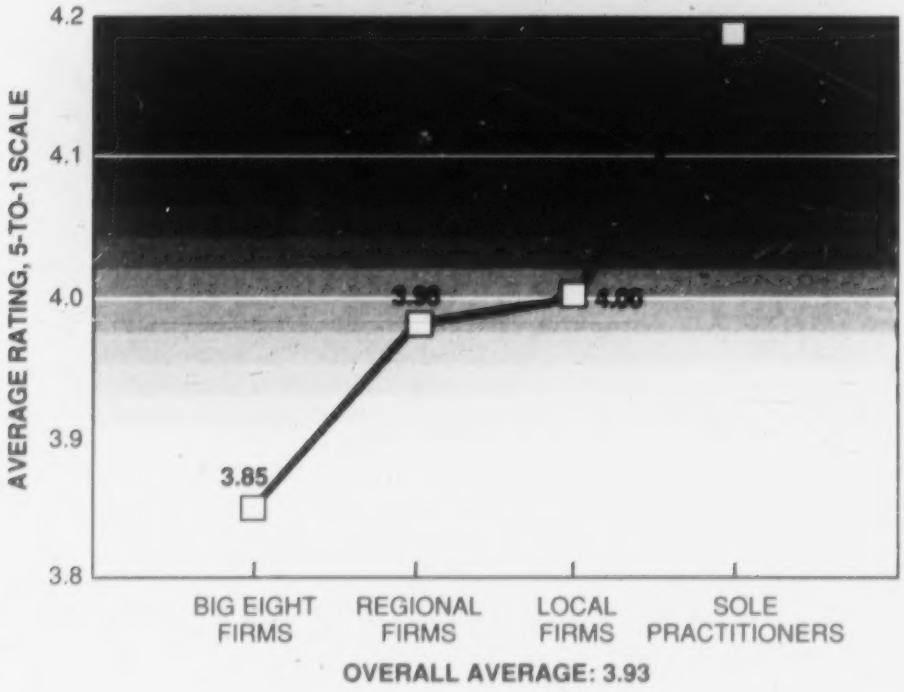


Exhibit 22 **FLEXIBILITY IN EXCEPTIONAL SITUATIONS**



in their accuracy and thoroughness. Across business lines, consumer goods manufacturers are the most satisfied customers (average rating: 4.33), and wholesale and retail traders the least satisfied (average: 3.84).

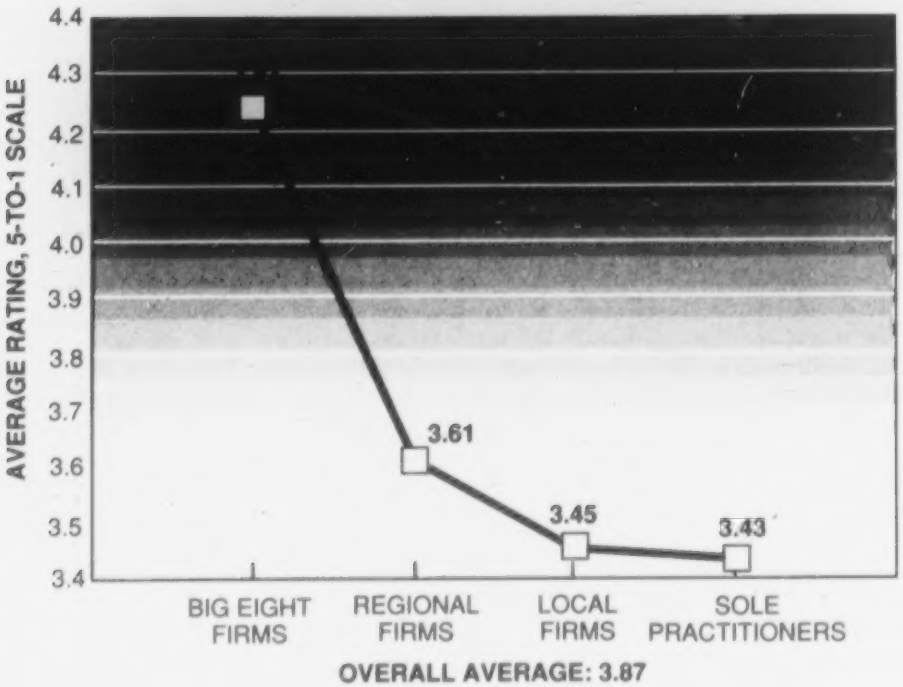
Sole practitioners receive particularly high ratings for flexibility, Big Eight firms particularly low ones (See Exhibit 22). Adaptability has always been an advantage for small organizations, which can cut through red tape and bureaucratic delay far more efficiently than larger ones.

But when comparing business categories, we find that health care and medical providers and wholesale and retail traders rate Big Eight firms more highly than local accountants in their ability to deal with exceptional situations. Big Eight clients in the former category rate the Big Eight at an average 3.91 in flexibility; clients of local firms average a low 3.00. The differences are less dramatic, although significant, among traders.

This finding, put alongside the ratings for "understanding your business," gives an indication that the particular demands of health care and medical providers are better met

Exhibit 23

BREADTH & RANGE OF SERVICES

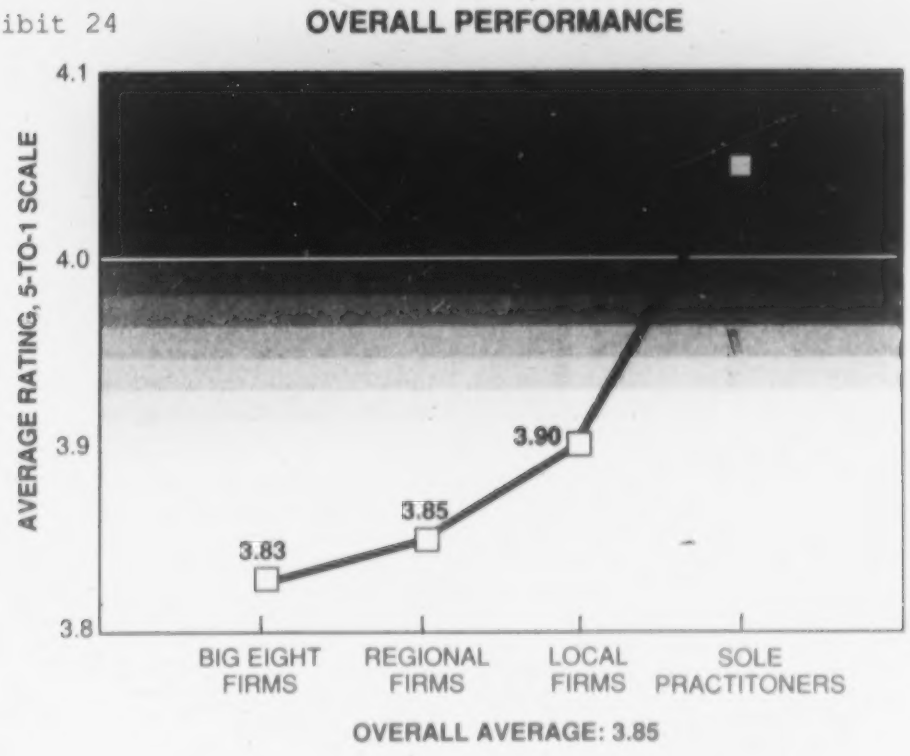


by larger accounting firms than small ones. When we consider the variety of federal, state, and local government assistance programs with which these providers must deal, and the number of regulations that are imposed upon them, we are not surprised that the services of larger accountancies are more highly rated.

The numbers given in Exhibit 23 should be judged against the findings discussed in Chapter 2, "Selecting An Accounting Firm." While Big Eight firms indeed offer a wider range of services, that factor is not considered particularly important to those selecting an accounting firm. Thus, the Big Eight has an impressive lead in an area that does not overly concern a large segment of the market.

Comparisons along business lines reveal the largest differential in scores in any of the questionnaire's areas of inquiry. Concerning the breadth and range of services, Big Eight clients among health care and medical providers give their accountants an average 4.45 rating; local accountants average 2.25. But again, only 28 percent of the health care and medical providers in the sample "highly value" the breadth and range of services their accountants provide (see

Exhibit 24



Chapter 2), and--perhaps as a circumstance--respondents in this category employ local accountants at a higher-than-average rate (32 percent, compared with 26.5 percent of all others).

Overall Performance

Overall performance proved something of an equalizer among accounting firms; the range of scores was relatively slight. Obviously, the breadth and range of services offered by Big Eight firms balances favorably against the lesser ratings they achieved in other particulars.(See Exhibit 24.)

Sole practitioners, familiar with the clients' specific needs, outpaced all others in overall performance. They earn these high marks with their understanding of the businesses they serve, with the accuracy and thoroughness of their work, and with their flexibility in the face of unusual or exceptional situations. The irony: Sole practitioners, with the highest ratings, have the fewest clients; the Big Eight, with the most clients, earned the lowest ratings. Let us note that sole practitioners serve a higher percentage of respondents with zero or negative growth; but let us also

recall that nearly half of these low-growth respondents use the Big Eight.

Save for "breadth and range of services," the Big Eight--which dominates the market, serving half the sample--consistently scored low in specific areas of performance, and below the average in overall performance. In the essay that follows, Mr. Suarez gives reasons why this should be so. For the moment, we offer this explanation: Quality has everything to do with the client's expectations matched against the actual delivery of service. Respondent firms have very high expectations when they sign on with a national firm of high reputation. If they discover that the actual service is not demonstrably superior to that offered by accounting firms of lesser size and scope, they will be dissatisfied. Objectively, Big Eight performance may match or exceed that of other accounting firms, but performance reviews that match expectation against reality are inherently subjective.

To gauge this balance between expectation and reality, we posed these two open-ended inquiries:

- "Is there any particular regard in which your accounting service has *exceeded* your expectations? How so?"
- "Is there an area in which your accounting service has *failed* to perform to your expectations? How so?"

The results appear below in Exhibit 32, in a box entitled "Expectations," which appears as part of Mr. Suarez' essay.

Table 6 in the Appendix displays the average ratings for each of the five particulars listed above and for overall performance, broken out by business category and type of accountant.

Beyond Basic Services

Accountants offer a wide range of extra services to their clients. Our questionnaire listed seven of these, and asked respondents if they were available from their current accounting firm. We also asked respondents to rate the importance of these "extras," providing a five-point scale on which 5 represented the highest rating, 1 the lowest. The extra services listed in the questionnaire:

- Tax planning (offered by 88.9 percent of accounting firm serving the whole sample)
- General business consulting (77.5%)

- Newsletters/bulletins on developments and trends (72.7%)
- Specialized computer software (47.2%)
- Management education and training (45.1%)
- Strategic planning (43.5%)
- Succession planning (35.3%)

An overview of our findings gives solid indication that accounting firms are well aware of the relative value that clients place on these extra services. *The higher the clients' importance ratings, the more likely it is that the accountant--whatever its type--offers the service.*

The overall importance rating for *tax planning* (see Exhibit 25) was 4.12 on the five-point scale. Clients of firms offering the service rated it at 4.13; respondents whose accountants do not offer the service naturally rated it lower, at 3.57. But the latter rating strongly indicates that those who do not enjoy the service desire it greatly.

Smaller firms placed a higher value on tax planning. The average among respondents earning less than $10 million annually was 4.20, compared with 4.09 among larger firms. (As will be seen, small firms value all but one of these extra services more highly than do large firms, for the obvious reason that they lack the in-house staff to develop and provide such services.)

Exhibit 25

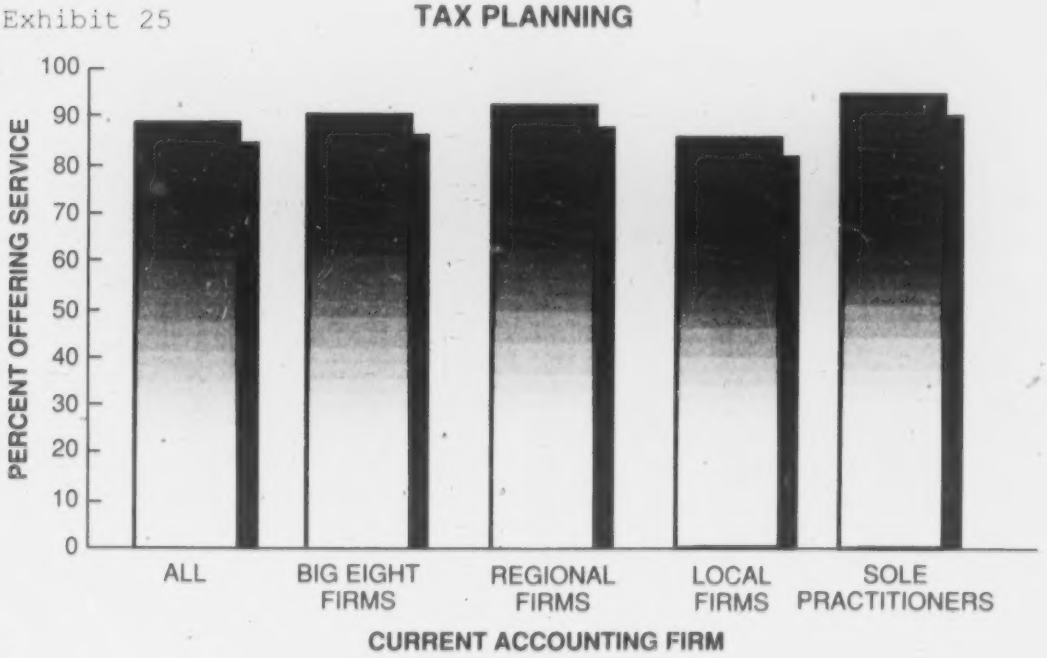
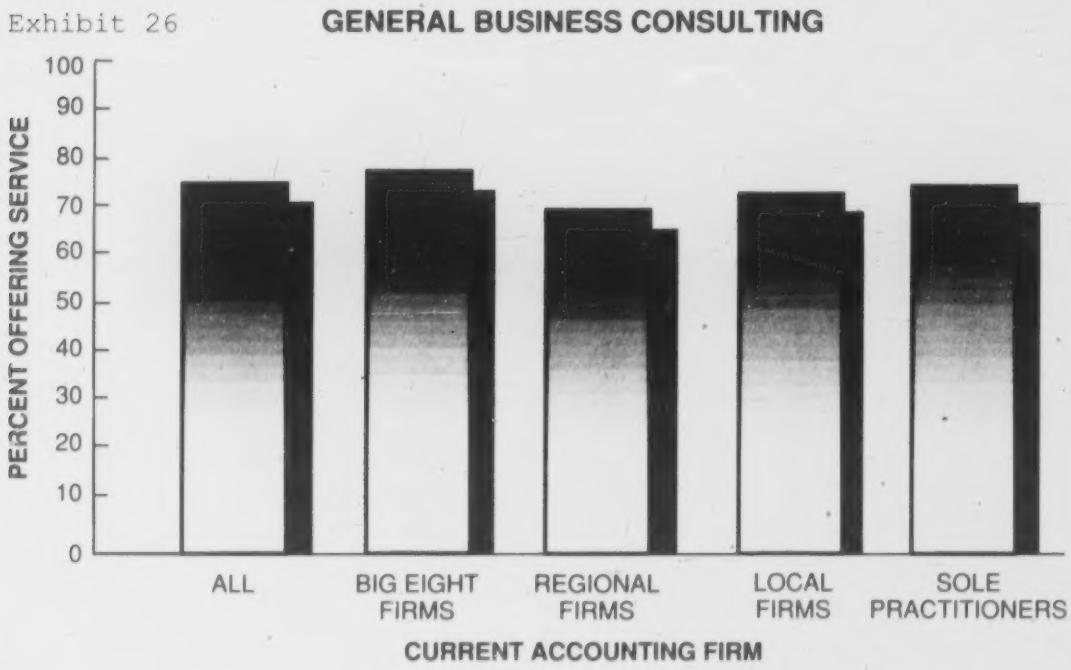


Exhibit 26



By business lines, the highest ratings came from health care and medical providers, who averaged 4.43, and from banking, financial, and insurance firms, who averaged 4.31. Wholesale and retail traders placed a comparatively low evaluation on tax planning, averaging 3.82.

The overall importance rating for *general business consulting* (see Exhibit 26) was 3.46 (3.52 among those whose accountants offer the service; 2.63 among others). The gap by organizational size was significant: small firms averaged 3.69, larger ones 3.27. Along business lines, the most significant variation from the average appeared among health care and medical providers, which gave general business consulting a low 3.13.

The overall importance rating for *newsletters and/or bulletins on developments and trends* (see Exhibit 27) was 3.44 (3.54 among those whose accountants offer the service, 2.58 among others). Here, and here alone, larger firms gave higher importance ratings than smaller ones. The overall average among firms grossing $10 million or more annually was 3.50, compared with 3.35 for smaller respondents. These figures, close as they are, do not constitute a very strong

indication, but larger firms have greater resources to employ in-house bookkeeping staffs, who might benefit from regular updates on changing tax laws.

Exhibit 27

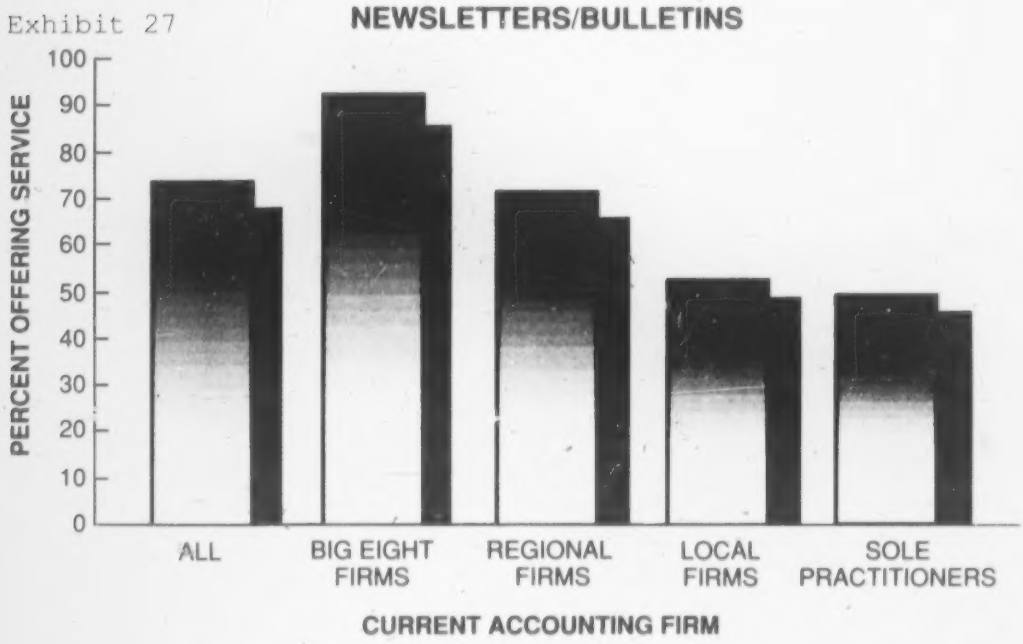
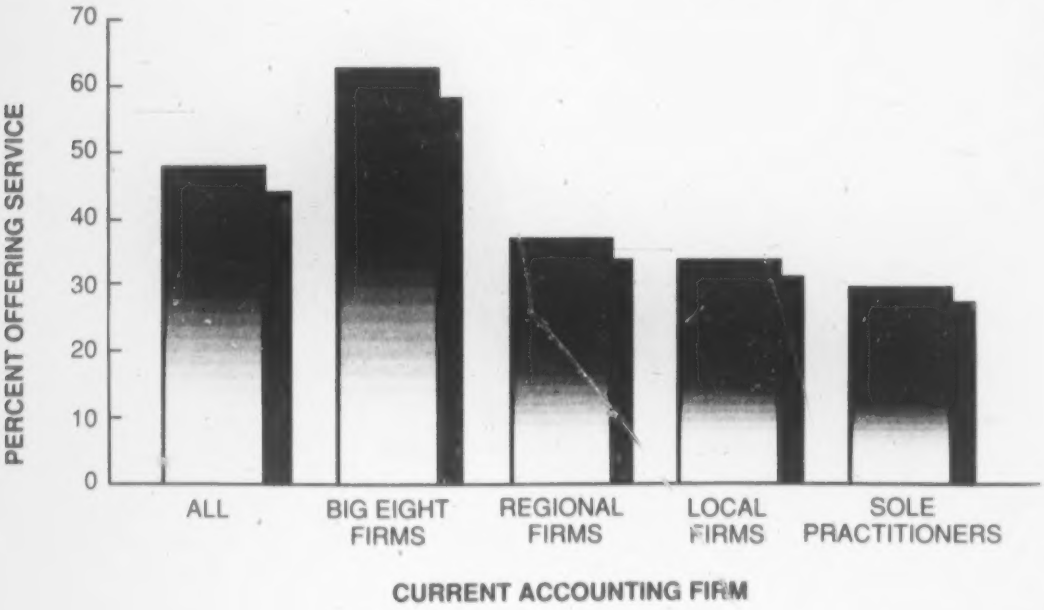


Exhibit 28



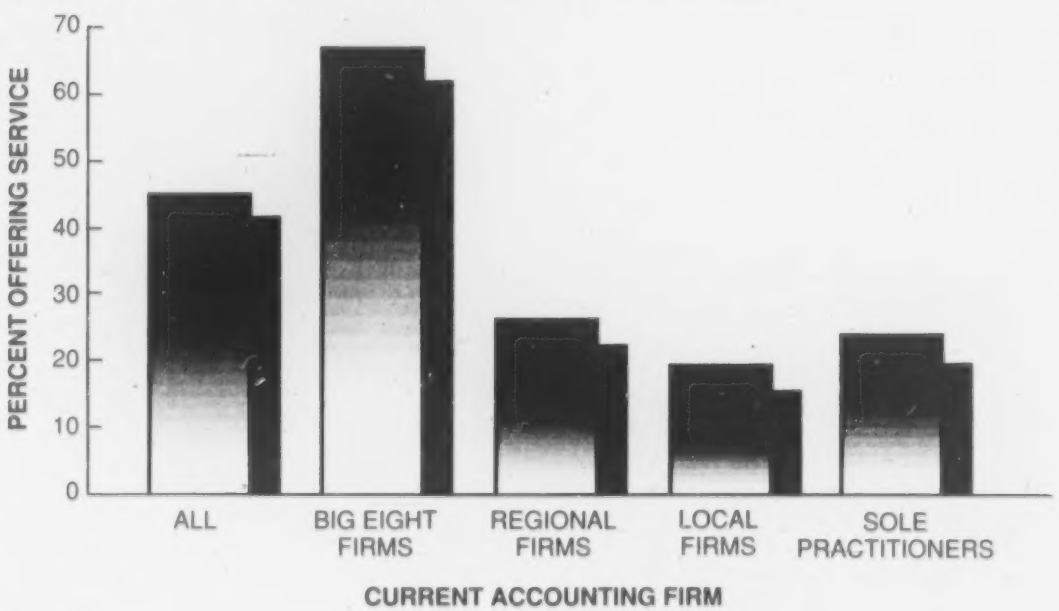
The overall importance rating for *specialized computer software* (see Exhibit 28) was 2.80 (2.97 among those whose accountants offer the service, 2.30 among others). Among smaller firms, the average was 2.90; among larger ones, 2.72--not significant differences.

Health care and medical providers place the highest importance on specialized software (average rating: 3.31), manufacturers of consumer goods the lowest (2.56). As before, the demand for government reporting weighs heavily in the health care and medical field, and the demand for specialized software may result from that fact.

It should be noted that accountants are by no means the only available source of specialized software. The relatively low importance rating here means only that respondents do not look to their accountants as a primary source of such software, not that they have little use for it.

The overall importance rating for *management training and education* was 3.01 (3.23 among those whose accountants offer the service, 2.50 among others). As Exhibit 29 makes clear, the Big Eight leads in offering such services by a wide margin. Management training has been a growth industry in the accounting field in the 1980s, a fact that has engendered

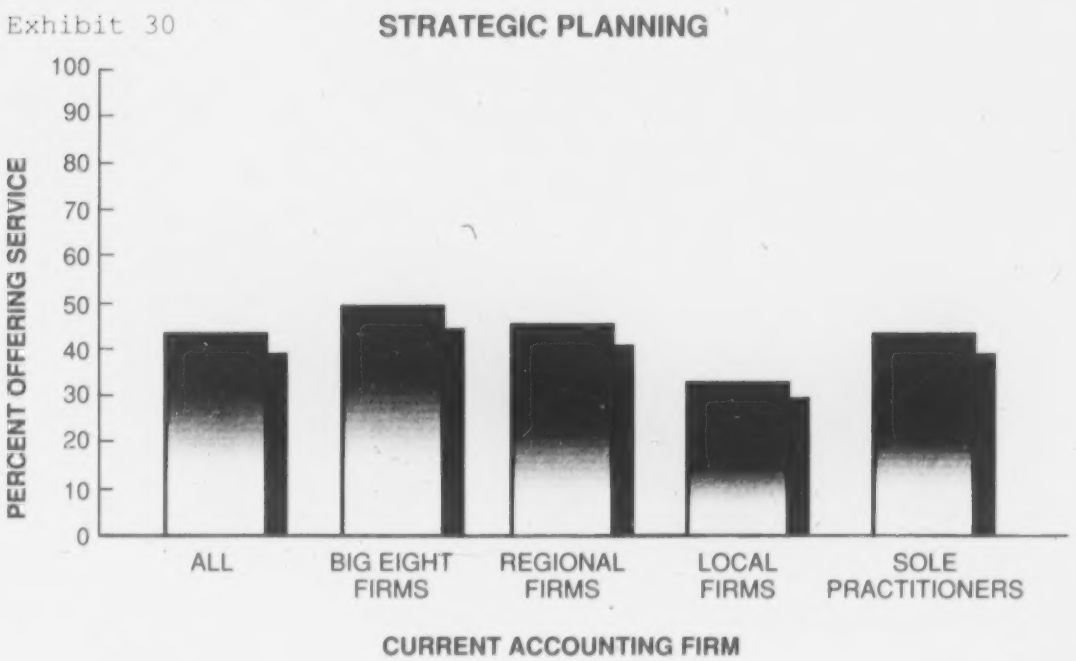
Exhibit 29 **MANAGEMENT TRAINING/EDUCATION**



some dispute in management circles. Inevitably, an accounting firm that tailors management training for a specific client affects management policy in that client firm. Is this desirable? It is certainly an arguable point.

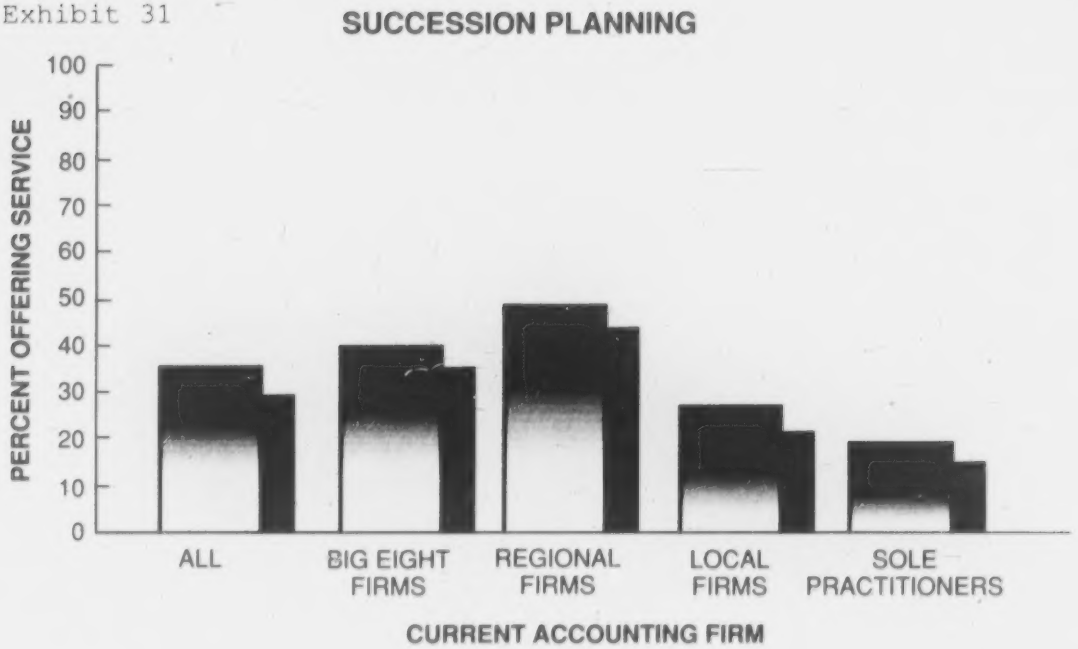
Smaller firms evince a greater need for management training. Respondents with less than $10 million in annual sales, whose accountancies offer the service, gave it an overall importance rating of 3.45, compared with a 3.11 rating from larger firms. Across business lines, management training was most popular among providers of professional services (3.62) and health care and medical services (3.38), least favored by wholesale and retail traders (2.83).

Exhibit 30



The overall importance rating for *strategic planning* (see Exhibit 30) was 3.18 (3.32 among those whose accountants offer the service, 2.82 among others). Again, smaller firms place a higher value on the service. Among 93 firms grossing less than $10 million annually, 36 report that their current accountants do *not* offer strategic planning services; of these, 14 (39%) value strategic planning at 4 or 5 on the five-point scale--a very strong indication that they desire assistance in this field.

Exhibit 31



The overall importance rating for *succession planning* (see Exhibit 31) was 2.83 (3.16 among those whose accountants offer the service, 2.23 among others). Naturally, both small businesses and family-owned firms placed a higher value on succession planning than did others. The average overall rating from small business CEOs was 3.06; from family-owned businesses, 3.38.

Nearly half of the wholesale and retail trading firms in the sample are family-owned; those that are gave succession planning a very high average overall rating of 3.86.

Other Services: Nineteen respondents wrote in a variety of additional extra services their accountants provide. Only one item--"personal financial planning"--was written in by as many as two respondents; both rated it at 5 on the importance scale. Others that rated at 5 or 4: acquisition analysis and planning; actuarial services; computer systems services; internal auditing (see Chapter 4 for more information on audits); market appraisals; selection of a banker; tax preparation (see Chapter 4); and valuation of stock price.

We re-emphasize the point made earlier: The higher the importance rating, the more likely it is that accounting firms offer the service. Accounting firms know their market at least that well. But to offer the service is one thing; to deliver it to the satisfaction of the customer is quite

another. Again, evaluations match expectation against reality. The point is underlined not only by our statistical findings, but also by Mr. Suarez' analysis, which follows.

THE EVALUATION PROCESS: MATTER AND MISCHIEF
BY EDWARD A. SUAREZ

Evaluation is a good and useful idea loaded with mischief. To the ear and to the mind, the word "evaluation" summons images of detached, cool, objective judgement, as in a physician evaluating a patient, or, better still, a judge evaluating the facts in a difficult case.

It's a shame that reality has to intrude on those images. Unfortunately, business life is a good deal less tidy than the life of the mind. Not that formal reviews and evaluations of accounting firms are wrong--they're absolutely necessary. The problem is that an evaluation of your accounting firm is less an objective review of facts than an assessment of a *relationship*.

Relationships, even business relationships, are by nature dynamic and changing. The changes in the relationship between client and accounting firm can take place on literally a week-to-week basis. Some days, both sides see the same blue sky. Other days, each will swear they are more sinned against than sinning.

Over the long haul, your instincts will tell you whether you're happy with your accounting firm. But given the complex nature of relationships, where does instinct leave off and evaluation begin?

We modestly suggest that evaluation properly begins with an honest statement of *expectations* by both the client and the accounting firms. As business conditions and circumstances change, expectations will change. And as they change, both the client and the accounting firm must *communicate and comprehend* the meaning of this new set of expectations.

Just as brevity is the soul of wit, understanding expectations is the soul of satisfaction. But accountants aren't mentalists. To a large degree, they depend on their clients to articulate their expectations and to explain the changes in their business. The clients who aid their firm by doing so benefit in two ways. They render more accurate evaluations of the accounting firm *and* enjoy a better performance from that firm.

Satisfaction

Our survey used direct and indirect means to discover how well accounting firms were meeting their clients' expectations. The indirect measure was the length of time our responding companies had been with their current accounting firm, a reasonable proxy for satisfaction. (See Exhibit 3 in Chapter 1.)

Our respondents gave us a fascinating snapshot of the marketplace for accounting services. The mathematical average (a consensus statistical standard for interpreting these kinds of questions) tells us that client and accounting firm have been together almost 11 years. This figure tends to confirm the conventional wisdom: Companies change their accounting firms only once in a great while.

As anyone in public accounting can tell you, that impression is dead wrong. The median response--half of all responses are above the median, half below--of 7.5 years of client-firm association comes closer to the truth.

An even more accurate account comes from examining individual responses. A little better than 43 percent of the companies have been with their current accounting firm *five years or less*. With such a large gap between the average and the individual, there must be unexplained forces at work.

And so there are, some of which have to do with client satisfaction.

First, slightly better than half of our respondents use large national or international accounting firms. A significant number of these relationships can be measured in decades rather than years. These extreme values in our response base make the average somewhat less representative than it would be otherwise.

Next, businesses change. They grow and they decline. They acquire companies, merge with companies, and are acquired by yet other companies. Bad old management gets thrown out, brave new management is brought in. Any of these changes can lead to a change in accounting firms; changes in management are especially known for their unpleasant effects on incumbent firms.

Another explanation is that the 1980s has been a strong decade for business start-ups. If your firm's been in business for three years, it's hard to report being with the same accounting firm for longer than that.

But the most basic, and possibly the most profound, reason for the difference between the average and the individual is this: In the 1980s, managements revised the way they viewed their business relationships. Demands for results replaced tolerance for mediocre (or worse) performance. The question of "Who do you know on the board?" became less important than "What have you done for us lately?"

The trend toward evaluation by results is not yet complete, but it affects every firm that provides professional services, from actuaries to investment bankers. For accounting, this new outlook has heightened competition between firms (ever ready to take advantage of another firm's misstep) now armed with marketing tools undreamed of just 15 years ago. As our survey shows, these changes don't amount to revolving-door client relationships, but they do keep things lively within the profession.

Expectations

We also asked our respondents a direct question: Had their accounting firms exceeded their expectations? About a third of those responding took the opportunity to answer this open-ended question. Nearly the same number of respondents replied to a negative variation: Did their firm fail to meet expectations?

A word of caution: Accept these open-ended replies as sincere expressions of opinion, but don't put too much stock in them as representative views. In the language of research, those who answered are "self-selected." Their experiences with their firms have differed in some way from the experiences of the rest of our respondents. So we offer their comments as valuable insights, not as a statistically correct projection of our respondents' relationship with their accounting firms.

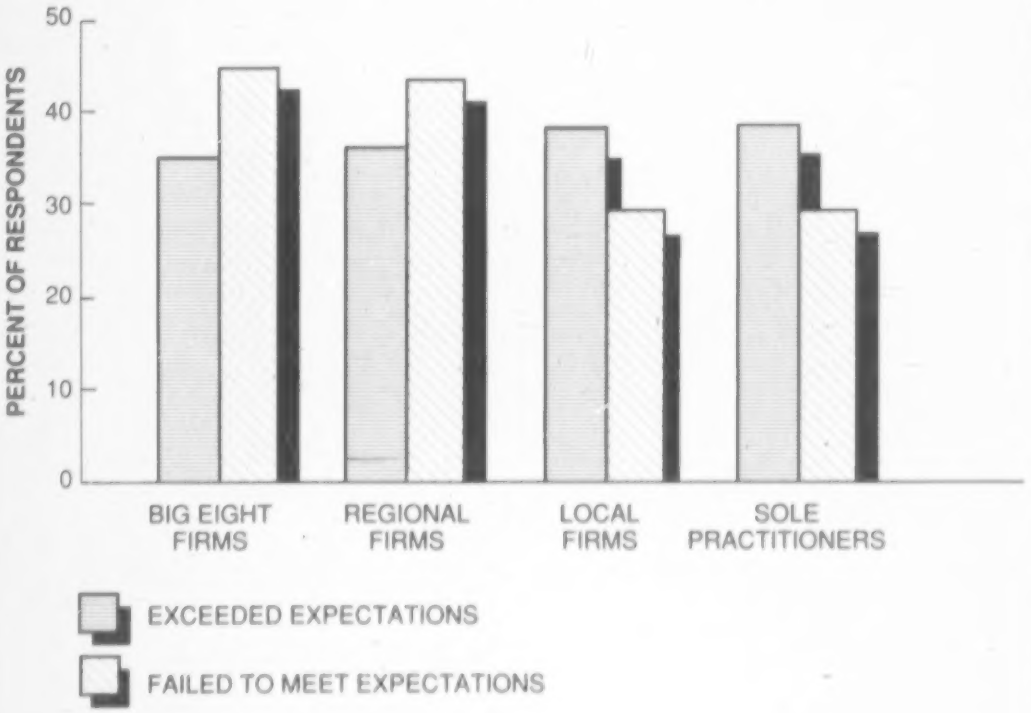
"Individual discussions of issues and ideas between our principals and the accounting firm's principals" were noteworthy to an East Coast manufacturer. In the Pacific Northwest, a financial services company's chief executive officer elaborated: "[Their] fees are reasonable . . . [They] work closely with our organization . . . They are knowledgeable and keep in constant contact."

Other respondents noted "personal service on-site" and "flexibility in responding to special needs" as special strengths of their accounting firms.

EXPECTATIONS

Exhibit 32 shows that firms were more likely to *fail* to meet client expectations than to exceed them. It also displays the fact that while the various types of accounting firms were roughly equal in their ability to exceed expectations (the overall average was 35.8 percent), Big Eight and regional accountants were significantly more likely to disappoint their clients than local accountants and sole practitioners.

Exhibit 32 **EXCEEDED/FAILED TO MEET EXPECTATIONS**



Smaller organizations reported a higher level of better-than-expected service; larger ones, a higher level of disappointment. Among firms grossing less than $10 million in annual sales, 40.6 percent told us that their accountants had exceeded expectations, compared with 31.7 percent of larger companies. Conversely, 39.6 percent of the larger companies said that their accounting firm had failed to perform to expectations, compared with 34.7 percent of smaller organizations. It is important to recall that smaller organizations use more local accountants and sole practitioners; larger ones, more Big Eight and regional accountants.

To put it another way, those respondents could tell that their accounting firms are about their companies. "Caring" may not be a word that leaps to mind in association with a numbers-oriented profession like accounting. But any evaluation of an accounting firm must include caring in its criteria, preferably high on the list.

Because caring, like trust, is central to the business relationship. An accounting firm that cares about the progress of your enterprise has identified *its* success with *your* success. This mutual focus on your company naturally leads to a better performance from the firm and smooths over the rough spots that arise in almost every day-to-day relationship.

An interesting footnote to these findings is that sole practitioners and smaller, local accounting firms easily outperformed all others when it came to caring about their clients, with one exception: Large (in dollars of revenue), long-term clients of national firms also reported that their firms exceeded their expectations.

Gang of Four

As noted before, not all of our respondents were thrilled with their accounting firms. Of those who reported that their firms failed to meet their expectations, their complaints tended to gravitate to one of four points: inattentiveness, fees, inappropriate staffing, and incomplete professional guidance. Since fees are the subject of a separate discussion, let's concern ourselves with the other three.

Inattentiveness is simply not caring, or giving the impression of not caring. Either way, the symptoms are the same. Poor communication, no sense of urgency, failure to learn the client's business, and a lack of new ideas are the hallmarks of an inattentive accounting firm.

Many of the claims of inattentiveness come from small clients matched up with certain larger national accounting firms. In the words of one company president, his national firm "failed to do everything they could for us. . . . Perhaps we are too small for [this particular firm]."

Firms of all sizes came under fire for failing "to provide significant recommendations" or for lacking "knowledge of new practices and services."

Sometimes inattentive service merely reflects poor communication between the firm and the client, which can often be traced to the personality or skills of an individual. Sometimes it really shows what one writer calls "a thinly veiled contempt" for the client.

If inattentiveness becomes an issue in your review of the company's accounting firm, you may want to identify the underlying problem (or you may be fed up and want to forget it).

Should communication prove to be the root cause, the firm may be able to reverse the problem with a staffing change or a special commitment to improving communication.

But if the firm genuinely doesn't care, turn away, shake the dust from your shoes, and don't look back--it's an institutional problem you'll never change. You need a new accounting firm.

STAFFING: Except for sole practitioners, firms of all sizes seemed to be guilty of too often sending too many trainees to receive on-the-job education at the client's business. "They spend an inordinate amount of time with us . . . because they send trainees out each year and they have to learn the business," said a vice president of one small business.

"Staff just 'tick and tock,'" another respondent asserted, leaving that respondent, we assume, ticked (and perhaps tocked) off at his accounting firm.

If these and other complaints of *inappropriate staffing* and yearly retraining at the client's expense are true, our respondents have more than ample reason to object. Almost every accounting firm large enough to support a junior staff understands the value of training its staff in-house. On-site training extends and enhances already established skills, but wholesale turnover and retraining of the firm's staff year in and year out is tiresome and expensive to the client. (In fact, very high turnover rates may tell you something important about your firm.)

Having conceded those points, we might note that our respondents may be showing some naivete about the accounting profession. By law, all American accounting firms are partnerships; (we hope) every first-year hire aspires to become a partner in the firm. Of course, only a fraction of the staff ever reaches that level.

This has two practical effects. First, staff members constantly assess their opportunities for advancement in the firm. In a number of instances, these personal judgments lead an individual to decamp the current accounting firm for another, or for a career outside public accounting. The trend in America has been for staff members to make these greener-grass decisions after two to four years with the firm, down from three to five years at the beginning of the 1980s.

Those staff members who stay with the firm must be challenged with new responsibilities and experiences. One way accounting firms accommodate the need to develop its promising staff members is to give them different client or account assignments.

Either way, a certain amount of turnover is built into our public accounting system. A client's evaluation of an accounting firm should reflect this fact of life and emphasize continuity at the *top* of the account team, *at the partner and manager levels*.

It's also possible that our respondents are engaging in some mild hyperbole about staffing. A veteran of public accounting might be inclined to think so.

For a number of rational and irrational reasons, clients like to see the most senior people available (a principal of the firm, at least) working on all aspects of their account. To the firm, unfortunately, staffing that way is the most direct route to going out of business. You don't use experienced, $150-per-hour strategic talent to carry out tasks that can be executed competently by $50-per-hour tactical hired hands.

ADVICE AND DISSENT: A blind spot shared by accounting firm and client alike is the role of the accounting firm in offering business advice. In a different context, a well-known (and we suspect, frustrated) CEO told his subordinates: "We'll never know as much as they do about the advertising business and they'll never know as much as we do about our business." The idea, of course, was that each should stop second-guessing the other. Things always seem to work out better when the client and the professional services firm act as allies rather than adversaries.

Again, the issue is expectations. The accounting firm may purposely or accidentally set itself up as a source of advice and counsel. The client company's representatives may hear or

infer a claim of expertise that was or was not made. However it evolves, the impression of learned consultation from the accounting firm, once established, is hard to put to rest.

One insurance executive from Georgia framed his criticism generally, citing the "failure [of the accounting firm] to provide significant recommendations."

Other respondents were more specific. The president of a New Hampshire manufacturing company singled out his firm's lack of advice on "financial planning" and "problems such as cash flow." Another executive faulted the accounting firm for not mastering "international accounting--taxes and the cost of doing business in the Third World."

Problems relating to ideas and advice appear to affect accounting firms of all sizes, from the largest national firms to local accountants. Suffice it to say that some clients expected their accounting firms to bring something to the party that the accountants clearly left at home.

But having said that, we ought to look at this problem from a different direction. Within every Certified Public Accountant beats a human heart that compels him or her to act pretty much like everyone else. When an accounting firm's representatives present ideas only to see them ignored, brushed aside, or put into that endless queue of things management is "thinking about," after a while the production of those ideas stops.

No one can say how many relationships between accounting firms and clients have soured precisely for such reasons, but you can bet the number is not small. By all means rate your accounting firm according to the currency of its knowledge, the ideas it offers, and the quality of its insights. At the same time, though, make sure your company fosters an atmosphere in which ideas--particularly ideas from outsiders--can flourish.

All Together, Now!

To insure a statistically correct look at our respondents' overall satisfaction with their firms--and to make sure the respondents to open-ended questions weren't having all the fun--we invited everyone in the survey to rate their firms. We first inquired about five common, specific points of evaluation; we then asked for a general performance rating. All ratings were done with a five-point scale, with 1 the lowest rating, 5 the highest. (See Exhibits 19 to 24 above.)

YOU'LL HAVE IT THURSDAY

Sole practitioners complete audit reports in far less time than others, while local accounting firms lagged furthest behind. Responses to the question, "How many weeks elapsed from the beginning of your most recent audit to the time the report was delivered?" were:

Type of Accounting	Firm Average (in weeks)
Sole practitioners	5.3
Regional firms	7.5
Big Eight firms	8.1
Second-tier firms	9.1
Local firms	10.8

Sole practitioners take half as long to complete audits as local firms, even though both, in the main, serve smaller organizations--a dramatic difference in turnaround time.

Due to the time-consuming performance by local accountants, smaller firms in the sample actually wait longer than larger ones for their completed audit reports. The findings, by organizational size:

Annual Sales	Average (in weeks)
Less than $10 million	9.3
$10 million-$24 million	7.9
$25 million-$50 million	8.3
$50 million or more	8.8
No response	5.8

According to our respondents, accounting firms' overall aggregate performance merits a solid "B"--above average. More precisely, accounting firms earned a summary 3.86 average rating on our five-point scale. It appears, though, that the large national firms (with an average 3.83 rating) lower the average value. All other firms combined enjoy a 3.88 average, led by sole practitioners at 4.05.

Looking at the specific points of evaluation, it's striking how little the average ratings vary. Our highest-rated category averaged 4.04, our lowest 3.75--or a bit more than a 7 percent relative difference between the two.

In our first specific question on performance, we asked our respondents to rate their accounting firm's understanding of the client's business. The grand average was 3.96, with the national firms registering a low average of 3.83. Sole practitioners, at 4.38, and local firms, 4.13, stood out in this category.

Knowledge of your business or industry is critical in the retention or selection of an accounting firm--so much so that Chapter 2 devoted considerable space to the subject. At present, it's enough to say that if your firm doesn't know your business or won't learn your business thoroughly, you're in for some rocky times ahead.

Time and Tide

Our respondents reserved their lowest average rating for their firms' efficiency and on-time delivery of service: 3.75. Sole practitioners lagged behind all others, posting a 3.33 average rating; the largest firms recorded a below-average 3.67. Local firms, whose clients rated them at 3.89, did the best in the category.

This goes against the grain of intuition, given our question on the delivery of our respondents' most recent audit (see box, "You'll Have It Thursday"). From the beginning of the audit to the delivery of the report, local firms averaged the longest time by a wide margin--10.8 weeks. Sole practitioners turned the audit around more quickly (5.3 weeks on average) than other firms; the nationals were slightly better than average at 8.1 weeks.

Clearly, our respondents aren't judging their firms solely on the basis of how quickly their audits are completed. Then again, there are a number of ways for a client to measure timely service other than audits. The swift return of phone

calls or delivery of tax-related opinions can be seen as equally important indicators of a firm's efficient performance.

What it all comes down to is this: Your accounting firm should strive mightily to meet your expectations (that word again) of an appropriate sense of urgency. If this becomes an issue in your continuing evaluation of your accounting firm, remind your accountants that there's nothing in your agreement with them that requires you to be reasonable.

Our respondents gave their highest marks to their firms for accuracy and thoroughness--an overall 4.04 average, with all classes of firms getting about the same rating. Since the accounting profession has spent millions of dollars setting national standards and requiring continuing professional education, we would expect a fairly high, uniform response to this question. Our respondents simply take technical competence for granted, and so should you.

Accounting firms received a fairly good grade, a 3.93 average, for their flexibility, their ability to deal with exceptional situations. Sole practitioners were again in front of the pack with an average 4.19 rating; the largest firms trailed with a 3.85.

The strong showing turned in by sole practitioners on this and other points of evaluation tends to underscore what we believe is such a firm's high degree of commitment to their clients. They identify with their client's business and in general can show they care about the client. By definition, they are encumbered with little bureaucracy and less internal politics.

When they fail--in timely delivery of service, for example--our findings most probably reflect the resource constraints that sole practitioners face daily. Those same resource constraints can also mean a sole practitioner isn't fully apprised of changes in the various tax codes and Securities and Exchange Commission regulations. And don't underestimate the inconvenience a sole practitioner's illness--or being hit by a bus--can cause.

These considerations apart, sole practitioners clearly seem to enjoy, on average, special relationships with their clients. Unfortunately, sole practitioners make up a very small part of our accounting-firm universe. Projecting our respondents' enthusiasm for sole practitioners to all one-person firms is statistically improper.

The big-name national firms win one on our final question, rating our respondents' firms on the breadth and range of services. The average rating was a 3.87; large firms scored an average 4.24. In this instance, large accounting firms pulled the average up--no other kind of firm was close to the top mark.

Changing Times

As we noted earlier, businesses change. When you originally select an accounting firm, your company's needs may be relatively modest. Business conditions may alter those needs profoundly. If you formally evaluate your accounting firm at regular intervals (not a bad idea, by the way), you should update the list of accounting *and* nonaccounting services you may need from your firm. Discuss your company's needs with your accounting firm so it can apply the right people with the right skills. A firm that cannot or will not modify its services to meet your needs should provoke second thoughts.

We'll end this section with two quotes--one famous, one not. The not-so-famous statement comes from a colleague, Ed Crego, Laventhol & Horwath's National Director of Organizational Consulting. He recently said, "Overconfidence, misplaced priorities, and lack or loss of client focus are the enemies. Over time, as businesses grow and mature, they have a tendency to become bureaucratic, to exist for themselves, to see the client as a necessary evil and to function in a highly routinized, repetitious, and robotic manner."

There's little in the data from our respondents to suggest that these kinds of attitudes prevail. We would nonetheless add that nothing cures a case of hubris like a hopping-mad client. You may do what you wish with this valuable information.

Our famous quote comes from a Yale football coach, Herman Hickman, who said his job was to keep the alumni "sullen, but not mutinous." The respondents to our survey don't seem to be sullen, but a top average rating of 3.86 for overall performance is scarcely something for accounting firms to cheer about. That rating should be a floor, not a ceiling; a commitment to do better would be welcome.

4

Fee Structures and Services Rendered

To get to the heart of the matter: How much do accounting services cost? What basic accounting services do companies purchase? What differences exist in the fees charged by various types of accounting firms--and what difference does that make to the client?

In the essay that completes this chapter, Ed Suarez addresses the issue of fees insofar as they relate to the selection process and how they impact upon the client-service relationship. However, we begin by presenting the cost data that our respondents shared with us.

SURVEY FINDINGS

This presentation may prove an accountant's delight; it is thick with pure numbers. There are a great many variables at work in the findings. Moreover, the subgroupings grow ever smaller as they are cut up by various criteria, and when samples grow smaller, the margins of error grow larger.

For that reason, we have been careful to list the *number* of respondents who gave us figures in each area of inquiry. Obviously, averaging the dollar amounts from fewer than ten companies gives a less reliable result than averaging the figures from 50 or more. Keep in mind as well that a number

Total Annual Billings

	Whole Sample	Clients of: Big Eight	Second-Tier	Regional Firms	Local Firms	Sole Pract.
All Respondents	377	190	11	42	112	21
No. giving figures	314	167	10	34	84	18
Pct. giving figures	83%	88%	91%	81%	75%	86%
Ave. ann. billing	$51,356	$78,355	$23,805	$40,551	$14,567	$9,710
By Annual Sales						
Less than $10 million	170	40	3	22	88	17
No. giving figures	138	37	3	18	66	14
Pct. giving figures	81%	93%	100%	82%	75%	82%
Ave. ann. billing	$14,824	$25,062	$10,067	$14,848	$10,457	$9,435
$10 million-$24 million	80	48	5	11	15	1
No. giving figures	68	42	4	9	12	1
Pct. giving figures	85%	88%	80%	82%	80%	100%
Ave. ann. billing	$30,351	$31,086	$23,213	$27,778	$31,288	$40,000
$25 million-$50 million	46	32	1	6	6	0
No. giving figures	40	28	1	5	5	0
Pct. giving figures	87%	88%	100%	83%	83%	0%
Ave. ann. billing	$59,214	$61,573	$45,000	$88,300	$26,600	—
$50 million or more	76	68	2	3	3	0
No. giving figures	63	58	2	2	1	0
Pct. giving figures	83%	85%	100%	67%	33%	0%
Ave. ann. billing	$152,698	$156,982	$35,000	$210,000	$25,000	—

of respondents who purchase these services did not itemize their expenditures, opting instead to wrap all charges together as "total annual billing."

We present this data as a set of guidelines, rather than as a full-fledged portrait of services bought and prices paid. That understood, here are the numbers. We begin with the total amount that our respondents paid for *all* accounting services in 1988, and proceed to break out these billings by five *distinct* accounting services listed in the questionnaire.

Total Annual Billings

Of the 377 respondents in our sample, 314, or 83.3 percent, gave us figures for the total cost of accounting services in 1988. While we begin with these overall totals, we caution that the amounts are a factor of the range of services purchased, and that the averages should be viewed with an eye to that fact.

To repeat: Comparisons are unreliable, due to the mix and match of the services purchased and the number of accounting hours required to provide such services. It is fair to note, however, that Big Eight annual billings are higher than the average in each category of organizational size. As will be seen, Big Eight clients tend to purchase a narrower range of services (because, being larger firms, they can perform such services with their own staffs). But because the matter eventually comes down to billable hours, the Big Eight, with its client base drawn from larger companies, nevertheless tops the list in overall cost of service.

Fifteen percent of the respondents giving figures spent less than $5,000 on accounting services in 1988, and an additional 10 percent spent between $5,000 and $10,000. All of these save two were companies that grossed less than $25 million in annual sales. Here are the modes--the figures most often reported--according to the respondents' annual sales:

Annual Sales	*Modal Annual Billing*	*Pct. Reporting Mode*
Less than $10 million	Less than $ 5,000	28.3%
$10 million-$24 million	$15,000	16.2%
$25 million-$49 million	$30,000	12.5%
	$40,000	12.5%
$50 million or more	$35,000	6.4%
	$60,000	6.4%
	$135,000	6.4%

Specific Services

The total annual billing reported above is, in most cases, the sum of the totals reported for each five specific accounting services listed in the questionnaire. These five services are not "extras"; they are considered basic to any business organization. They are:

- Certification of financial statements (audit or review)
- Preparation of income tax returns
- Assistance in preparing or evaluating financial statements
- Consultation on business planning and/or capital investment
- Monthly bookkeeping

In each regard, we asked if respondents currently purchase the service; the per-hour fee that they are charged for that service; and their 1988 bill for that service. (We allowed an alternative for those who did not itemize expenses by these specific services. "If costs are billed for a 'package' of services," the questionnaire read, "the annual total billing is approximately $ _____ .")

Here are the responses from the entire sample for each of the basic services listed:

Basic Accounting Services

	Pct. that purchase service	*Number giving hourly fee*	*Average hourly fee*	*Number giving annual billing*	*Average annual billing*
Certification of financial statements (audit or review)	72.9%	89	$85	163	$44,201
Preparation of income tax returns	67.4%	83	$87	119	$8,411
Assistance in preparing or evaluating financial statements	35.0%	53	$88	41	$13,827
Consultation on business planning and/or capital investment	32.1%	54	$111	44	$12,895
Monthly bookkeeping	9.3%	13	$51	8	$4,452

Certification of Financial Statements (Audit or Review)

		Clients of:				
	Whole Sample	*Big Eight*	*Second-Tier*	*Regional Firms*	*Local Firms*	*Sole Pract.*
All Respondents	377	190	11	42	112	21
Pct. purchasing service	73%	84%	82%	67%	61%	43
No. giving per-hour fee	89	49	1	11	28	1
Ave. hourly fee	$85	$82	$100	$99	$83	$95
No. giving annual billing	163	115	4	15	25	3
Ave. annual billing	$44,201	$53,192	$21,600	$42,153	$13,240	$4,333

In each of these areas, we found important differences by various criteria in the percentage of respondents purchasing the service. Most of these differences correlated to the client's annual sales, while others divided along business lines or type of accountant.

Of course, differences in annual billings correlated strongly to organizational size. Hourly fees differed by the type of accountant. In the (many) charts that follow, we break out the data to illustrate these differences.

The modal per-hour fee was $100, reported by 18 respondents; the high was $200, the low, $35. The modal annual billing was $20,000, reported by 10 respondents; the high figure was $500,000, the low, $300.

Certification of Financial Statements

This is the most frequently purchased basic accounting service. If the figure of 73 percent seems low, bear in mind that 43 respondents, or 11 percent of the whole sample, did not fill in this section of the questionnaire (though they gave valuable information in other areas of inquiry). Eliminating these 43 respondents leaves us with a total sample of 334; of those, 82 percent purchase audit or review services from their accountants.

The "missing numbers" are at opposite ends of the scale of organizational size. Only 60 percent of the companies grossing less than $10 million annually purchase audit or review services, and only 80 percent of those with $50 million or more in annual sales. The former group, it seems, can forego the service, and the latter has the staff to perform internal auditing.

Below are the figures, broken out by annual sales or budget. Due to the small number of clients of "second-tier" accounting firms, we do not list those figures.

Among organizations of similar size, there were variations by business category. While 60 percent of all the smaller firms (less than $10 million in annual sales) purchased audit or review services, only 39 percent of the consumer goods manufacturers of that size did so, compared with 75 percent of the banking, financial, and insurance firms. The larger organizations ranged from a high of 100 percent of health care and medical providers and wholesale and retail traders using audit or review services to a low of 74 percent of consumer goods manufacturers.

Certification of Financial Statements (Audit or Review)

	Whole Sample	Clients of: Big Eight	Regional Firms	Local Firms	Sole Pract.
Annual Sales or Budget					
Less than $10 million	170	40	22	88	17
Pct. purchasing service	60.0%	80.0%	54.5%	52.3%	52.9%
No. giving per-hour fee	32	8	4	5	0
Ave. hourly fee	$84	$83	$110	$78	—
No. giving annual billing	54	26	4	20	3
Ave. annual billing	$13,981	$18,673	$13,625	$9,200	$4,333
$10 million-$24 million	80	48	11	15	1
Pct. purchasing service	85.0%	89.6%	72.7%	93.3%	0.0%
No. giving per-hour fee	23	13	4	5	0
Ave. hourly fee	$95	$91	$94	$105	—
No. giving annual billing	40	29	7	2	0
Ave. annual billing	$23,401	$23,547	$20,685	$40,000	—
$25 million-$50 million	46	32	6	6	0
Pct. purchasing service	93.5%	90.6%	100.0%	100.0%	0.0%
No. giving per-hour fee	15	10	3	2	0
Ave. hourly fee	$74	$74	$91	$50	—
No. giving annual billing	25	19	2	3	0
Ave. annual billing	$36,122	$40,423	$21,500	$22,333	—
$50 million or more	76	68	3	3	0
Pct. purchasing service	80.3%	80.9%	66.7%	66.7%	0.0%
No. giving per-hour fee	20	18	0	2	0
Ave. hourly fee	$82	$80	—	$50	—
No. giving annual billing	43	40	2	0	0
Ave. annual billing	$106,737	$103,992	$195,000	—	—

Preparation of Income Tax Returns

		Clients of:				
	Whole Sample	*Big Eight*	*Second-Tier*	*Regional Firms*	*Local Firms*	*Sole Pract.*
All Respondents	377	190	11	42	112	21
Pct. purchasing service	67%	58%	91%	79%	76%	71%
No. giving per-hour fee	83	28	2	17	32	4
Ave. hourly fee	$87	$96	$100	$90	$80	$61
No. giving annual billing	119	69	4	13	29	5
Ave. annual billing	$8,441	$11,825	$7,848	$6,823	$2,582	$397

Preparation of Income Tax Returns

The modal per-hour fee was $100, reported by 25 respondents; the high was $200, the low, $30. The modal annual billing was $5,000, reported by 11 respondents; the high, $120,000, the low, $85.

Again, we find this service more necessary to smaller firms (76 percent purchase it) than to larger ones; nevertheless, 60 percent of companies grossing $10 million or more annually use their accountants to prepare their tax forms. Compared with the two prior services reported, it is relatively inexpensive, with annual billings averaging 20 to 30 percent below the cost of audits or reviews.

Here are the figures, broken out by annual sales:

Preparation of income tax returns

	Whole Sample	Clients of: Big Eight	Regional Firms	Local Firms	Sole Pract.
Annual Sales or Budget					
Less than $10 million	170	40	22	88	17
Pct. purchasing service	75.9%	70.0%	86.4%	75.0%	76.5%
No. giving per-hour fee	48	8	10	26	4
Ave. hourly fee	$82	$95	$95	$77	$61
No. giving annual billing	54	19	7	24	3
Ave. annual billing	$3,515	$5,047	$5,857	$2,006	$600
$10 million-$24 million	80	48	11	15	1
Pct. purchasing service	72.5%	68.8%	63.6%	86.7%	0.0%
No. giving per-hour fee	17	8	4	3	0
Ave. hourly fee	$87	$85	$77	$100	—
No. giving annual billing	26	18	3	2	0
Ave. annual billing	$5,876	$5,691	$2,066	$7,875	—
$25 million-$50 million	46	32	6	6	0
Pct. purchasing service	71.7%	68.8%	100.0%	66.7%	0.0%
No. giving per-hour fee	11	7	3	1	0
Ave. hourly fee	$87	$89	$91	$60	—
No. giving annual billing	19	14	2	3	0
Ave. annual billing	$15,368	$19,250	$5,750	$3,666	—
$50 million or more	76	68	3	3	0
Pct. purchasing service	40.8%	39.7%	33.3%	66.7%	0.0%
No. giving per-hour fee	7	5	0	2	0
Ave. hourly fee	$120	$128	—	$100	—
No. giving annual billing	18	17	1	0	0
Ave. annual billing	$20,866	$20,329	$30,000	—	—

Assistance in Preparing and/or Evaluating Financial Statements

Within categories of organizational size, there was little variation by business lines. The range among companies grossing $10 million or more ran from 72 percent of the wholesale and retail traders purchasing income tax preparation services to 46 percent of professional services providers and banking, financial, and insurance firms. But among smaller companies, professional services organizations were the most frequent users of the service (84%), wholesale and retail traders the least frequent (57%).

Assistance in Preparing and/or Evaluating Financial Statements

			Clients of:			
	Whole Sample	*Big Eight*	*Second-Tier*	*Regional Firms*	*Local Firms*	*Sole Pract.*
All Respondents	377	190	11	42	112	21
Pct. purchasing service	35%	20%	46%	38%	55%	57%
No. giving per-hour fee	53	15	1	8	25	4
Ave. hourly fee	$88	$95	$75	$121	$80	$51
No. giving annual billing	41	14	1	6	17	3
Ave. annual billing	$13,827	$28,664	$12,000	$7,166	$4,789	$9,733

The mode (i.e., the single figure most often reported) for hourly fees was $100, reported by 14 respondents; the high figure, $250; the low, $20. The modal annual billing was $2,000, reported by 4 respondents; the high was $300,000, the low, $165.

As displayed in the chart below, this service proved far more necessary to smaller companies than larger ones, and as a consequence, far more frequently provided by local accountants than Big Eight or regional firms. While the number of smaller firms purchasing this service from sole practitioners (10) provides a less-than-reliable sample, this is the only service for which clients of sole practitioners averaged a higher annual bill than did clients of local accountants.

Here are the figures, broken out by annual sales:

Assistance in preparing and/or evaluating financial statements

	Whole Sample	Clients of: Big Eight	Regional Firms	Local Firms	Sole Pract.
Annual Sales or Budget					
Less than $10 million	170	40	22	88	17
Pct. purchasing service	52.9%	37.5%	54.5%	55.7%	57.1%
No. giving per-hour fee	33	5	5	19	4
Ave. hourly fee	$85	$100	$125	$78	$51
No. giving annual billing	29	5	5	16	3
Ave. annual billing	$4,417	$2,100	$7,400	$3,213	$9,733
$10 million-$24 million	80	48	11	15	1
Pct. purchasing service	32.5%	22.9%	18.2%	66.7%	0.0%
No. giving per-hour fee	12	6	2	3	0
Ave. hourly fee	$98	$103	$112	$88	—
No. giving annual billing	8	5	1	1	0
Ave. annual billing	$12,350	$10,160	$6,000	$30,000	—
$25 million-$50 million	46	32	6	6	0
Pct. purchasing service	13.0%	12.5%	16.7%	16.7%	0.0%
No. giving per-hour fee	3	1	1	1	0
Ave. hourly fee	$78	$60	$125	$50	—
No. giving annual billing	0	0	0	0	0
Ave. annual billing	—	—	—	—	—
$50 million or more	76	68	3	3	0
Pct. purchasing service	13.2%	10.3%	33.3%	66.7%	0.0%
No. giving per-hour fee	5	3	0	2	0
Ave. hourly fee	$91	$85	—	$100	—
No. giving annual billing	4	4	0	0	0
Ave. annual billing	$85,000	$85,000	—	—	—

While only 21 percent of the larger firms in the sample purchased assistance with financial statements, nearly half of the professional services providers and wholesale and retail traders of that size did so. Among smaller companies, the percentage of those buying the service ranged from 62 percent of consumer goods manufacturers to 38 percent of banking, financial, and insurance firms.

Consultation on Business Planning and/or Capital Investment

		Clients of:				
	Whole Sample	*Big Eight*	*Second-Tier*	*Regional Firms*	*Local Firms*	*Sole Pract.*
All Respondents	377	190	11	42	112	21
Pct. purchasing service	32%	22%	45%	52%	39%	38%
No. giving per-hour fee	54	15	1	13	21	4
Ave. hourly fee	$11	$148	$100	$116	$94	$47
No. giving annual billing	4	115	4	15	25	3
Ave. annual billing	$12,895	$53,192	$21,600	$42,153	$13,240	$4,333

Consultation on Business Planning and/or Capital Investment

The modal per-hour fee was $100, reported by 13 respondents; the high was $300, the low, $20. There were three modal figures for annual billing, each reported by four respondents; they were $1,000, $5,000, and $10,000. The high was $200,000, the low, $100.

This is a growth industry for accounting firms, and this, too, is where the money is to be made. Hourly billings run sharply higher for consultation when compared with fees for other services, and Big Eight fees are highest of all. Given the performance ratings reported in Chapter 3, where the Big Eight lagged behind its competitors in most categories, the promise of consultation on business planning and investments may provide the best explanation for Big Eight penetration in the small-business market.

Here are the figures, broken out by annual sales:

Consultation on business planning and/or capital investment

		Clients of:			
	Whole Sample	*Big Eight*	*Regional Firms*	*Local Firms*	*Sole Pract.*
Annual Sales or Budget					
Less than $10 million	170	40	22	88	17
Pct. purchasing service	40.6%	25.0%	63.6%	39.8%	47.1%
No. giving per-hour fee	33	4	8	17	4
Ave. hourly fee	$100	$162	$114	$91	$47
No. giving annual billing	25	3	8	13	1
Ave. annual billing	$3,279	$11,333	$2,530	$2,073	$800
$10 million-$24 million	80	48	11	15	1
Pct. purchasing service	36.3%	27.1%	54.5%	46.7%	0.0%
No. giving per-hour fee	14	6	4	3	0
Ave. hourly fee	$123	$147	$117	$91	—
No. giving annual billing	8	5	2	0	0
Ave. annual billing	$5,882	$6,700	$3,500	—	—
$25 million-$50 million	46	32	6	6	0
Pct. purchasing service	21.7%	21.9%	33.3%	16.7%	0.0%
No. giving per-hour fee	2	1	1	0	0
Ave. hourly fee	$92	$60	$125	—	—
No. giving annual billing	4	3	0	1	0
Ave. annual billing	$54,000	$71,000	—	$3,000	—
$50 million or more	76	68	3	3	0
Pct. purchasing service	17.1%	17.6%	0.0%	33.3%	0.0%
No. giving per-hour fee	5	4	0	1	0
Ave. hourly fee	$155	$156	—	$150	—
No. giving annual billing	7	7	0	0	0
Ave. annual billing	$31,767	$31,767	—	—	—

Among companies grossing less than $10 million, there is a very wide range along business lines: while 69 percent of small consumer goods manufacturers purchase business consulting services, only 7 percent of health care and medical providers do so. In the middle, we find nearly half of the professional services providers, industrial manufacturers, and banking, financial, and insurance firms receiving consulting service from their accountants. Among larger companies the range is less dramatic, running from 40 percent of health care and medical providers to 13 percent of consumer goods manufacturers.

Monthly Bookkeeping

		Clients of:				
	Whole Sample	*Big Eight*	*Second-Tier*	*Regional Firms*	*Local Firms*	*Sole Pract.*
All Respondents	377	190	11	42	112	21
Pct. purchasing service	9%	3%	0%	10%	19%	24%
No. giving per-hour fee	13	1	0	1	9	2
Ave. hourly fee	$51	$75	—	$50	$53	$32
No. giving annual billing	8	0	0	2	5	1
Ave. annual billing	$4,452	—	—	$1,960	$6,100	$1,200

Monthly Bookkeeping

The modal per-hour fee was $45-50, reported by four respondents; the high was $100, the low, $20. As each of the eight respondents who gave figures reported different numbers, there was no mode in annual billing. The high figure was $11,500, the low, $500.

As the chart below makes obvious, larger firms have little need for bookkeeping services; only six of the 202 firms in the sample that gross $10 million or more purchase such services from their accountants (all gross less than $25 million). Hourly rates are low, and annual billing roughly equal to that for assistance in preparing financial statements and preparation of income taxes.

Here are the figures, broken out by annual sales:

Monthly bookkeeping

	Whole Sample	Clients of: Big Eight	Regional Firms	Local Firms	Sole Pract.
Annual Sales or Budget					
Less than $10 million	170	40	22	88	17
Pct. purchasing service	17.1%	5.0%	13.6%	21.6%	29.4%
No. giving per-hour fee	10	0	0	8	2
Ave. hourly fee	$48	—	—	$51	$32
No. giving annual billing	8	0	2	5	1
Ave. annual billing	$4,452	—	$1,960	$6,100	$1,200
$10 million-$24 million	80	48	11	15	1
Pct. purchasing service	7.5%	6.3%	9.1%	13.3%	0.0%
No. giving per-hour fee	3	1	1	1	0
Ave. hourly fee	$63	$75	$50	$65	—
No. giving annual billing	0	0	0	0	0
Ave. annual billing	—	—	—	—	—
$25 million-$50 million	46	32	6	6	0
Pct. purchasing service	0.0%	0.0%	0.0%	0.0%	0.0%
No. giving per-hour fee	0	0	0	0	0
Ave. hourly fee	—	—	—	—	—
No. giving annual billing	0	0	0	0	0
Ave. annual billing	—	—	—	—	—
$50 million or more	76	68	3	3	0
Pct. purchasing service	0.0%	0.0%	0.0%	0.0%	0.0%
No. giving per-hour fee	0	0	0	0	0
Ave. hourly fee	—	—	—	—	—
No. giving annual billing	0	0	0	0	0
Ave. annual billing	—	—	—	—	—

The low number of companies that purchase bookkeeping services makes comparisons by business lines statistically unreliable. In fact, there was little variation; organizational size, not business category, determines whether companies buy bookkeeping services from their accounting firms.

Changes in Fee Structures

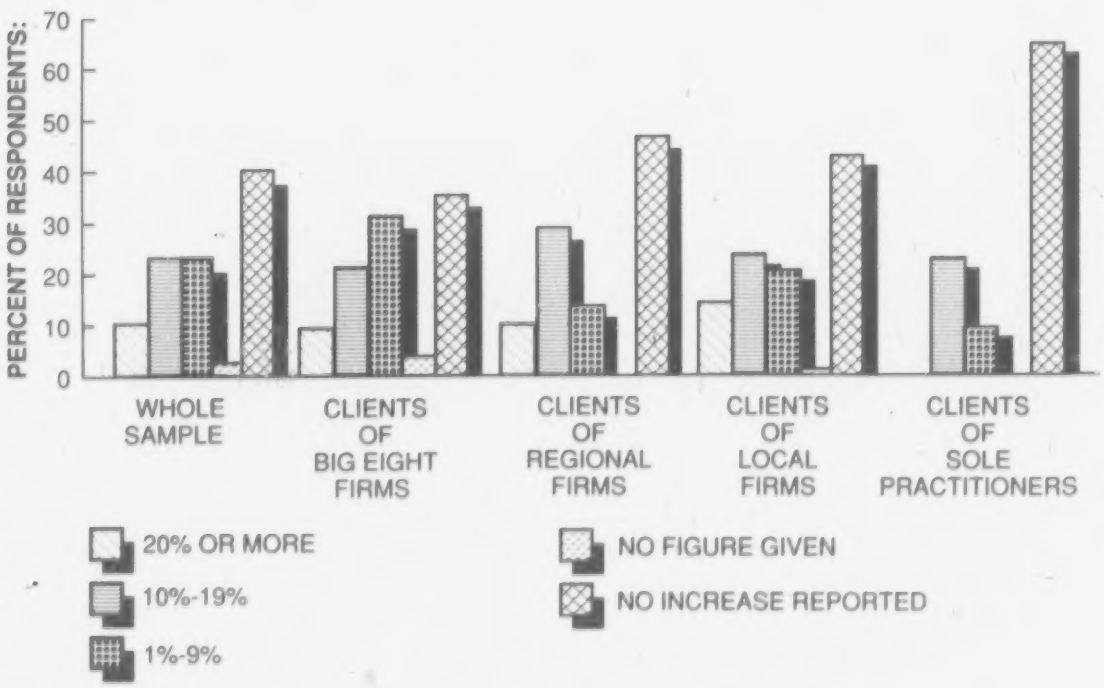
The questionnaire posed this query:

> "From 1987 to 1988, have fees for all accounting services increased or remained constant? If increased, by what percentage? If constant, what was the last year in which fees increased?"

Six out of every ten respondents reported increases in the period. Exhibit 33 displays the responses, broken out by type of accounting firm.

The average rate of increase among those reporting increases was 15.2 percent. The modal increase was 10 percent, reported by 64 respondents; the highest, a whopping 250 percent.

Exhibit 33 **INCREASES IN ACCOUNTING FEES, 1987-1988**



The average rate of increase reported by Big Eight clients was 14 percent; by clients of regional firms, 23 percent; by clients of local firms, 16 percent; by clients of sole practitioners, 9 percent.

Of 61 firms who gave the year of their most recent increase prior to 1988, 25 cited 1987; 26, 1986; and three, 1984. The remaining seven have not incurred increased rates since 1983 or earlier.

As Ed Suarez writes in the essay that follows, accounting services bidding for a client may heavily discount their fees. According to our findings, the "honeymoon period" lasts less than two years. Among 58 respondents who have been with their current accountants for less than two years, a low 22 percent reported increases in 1988 over 1987 fees; among 309 who have been with their current firms for more than two years, 63 percent reported increases.

With Mr. Suarez, we urge our readers to enjoy the honeymoon.

FEES AND FAIRNESS
BY EDWARD A. SUAREZ

Isn't it odd the way so much business conversation revolves around money, but when it comes to specifics people tend to clam up? Fact: Companies rarely change accounting firms because they object to how much a firm charges. In many cases when fees are given as the reason to discharge a firm, fees are not really the cause at all.

Companies may, however, have serious questions about the *added value* they receive for the firm's charges. This is a separate and different matter, calling for a candid discussion between client and accounting firm.

Some of these discussions can be anticipated and discarded. There are certain firms, for example, that offer extremely low first-year fees. They want to buy the business for the first year, then sharply increase their compensation in ensuing years.

The counter to this suspected gambit is to seek fixed fees or, where possible, gradually increasing fees for the first three years. (Remember, though, that most firms quote fees based on the company's audit or accounting engagement; other services, such as tax planning or management consulting, should be budgeted separately.) If the firm refuses outright

to consider flexible arrangements or takes an intractable stance during fee negotiations, this is a bad sign. Fold your cards, give up your ante, and move on--the relationship between the firm and your company wasn't meant to be.

(Fairness dictates that we turn this example around, which happens just as often. Sometimes a firm's desire to win the account will lead it to cut profits by as much as two thirds. Once the proposal is on the table, an aggressive client management may seek to cut the fees even more. If the accounting firm accepts terms of marginal profitability, it must keep a tight rein on hours of service. Should some unforeseen circumstance arise that requires more time, the client and the firm alike are in uncomfortable positions. Needless to say, such tensions don't offer much hope of a long-term relationship.)

Other companies defer giving their firms small year-to-year fee increases. We believe this is a false economy. The wages of professionals in any field--labor costs, if you will--tend to rise over time. These increases naturally show up in the fees charged by the firm, since labor costs make up the major operating cost of a professional services firm.

One Way or the Other

The client has a number of choices in this matter, but they yield results tending in one of two directions. Underpaying the firm will lead to less time spent servicing the account or shuffling assignments on the account, with junior staff taking on more responsibility. Paying rates adjusted for increased wages will preserve the status quo, but not necessarily improve service. (You get what you pay for.)

The best solution for both client and accounting firm is for the firm to work up a realistic budget to be spent during the year to come. This budget should be based on the firm's experience with recent engagements of similar size, scope, and difficulty. Any confusing or unclear points should be discussed with and adequately explained by the firm's principals.

Let's consider two special circumstances. The first is a new account start-up and the second is who pays for the accounting firm's training in the ways of the company. Usually the company wants to pay nothing for start-up while the accounting firm would like to be reimbursed in full.

We bow almost imperceptibly to the client's logic. Then we recommend client and accounting firm split the costs of start-up in half. Over the long run, the benefits of the business relationship should be almost equal and the tenor of that relationship is set during the first few months. The accounting firm almost inevitably spends more time and works harder in the first several months than it planned. The company should show its good faith by kicking in a few extra dollars.

Second, not all companies grow. Some, for one reason or another, shrink and need to save money any way they can. Should you find your company in such circumstances, go to your engagement partner immediately. Most firms can suggest courses of action to reduce your company's fees, particularly if the firm believes your problems are temporary.

Summing It Up

We'll end with a rumination, something to think about without any special direction about how to apply it in evaluating your accounting firm's performance--even though it may directly affect how you evaluate your firm.

When a person or company pays another to render a service, the natural tendency is to think the one paying the freight is superior to the one being paid. The relationship between an accounting firm and its client is somewhat different.

Yes, the company can fire its accountants. But whatever the state of the relationship, a public accounting firm has duties to organizations and institutions other than the client company. Banks, suppliers, investors, and the general public all depend on the opinions of *independent* accountants. Don't expect them to compromise this standard, so behave accordingly.

A final word of advice: Pull up your socks, stand up straight, speak up, and speak out. It's all a part of American enterprise; enjoy it for all it's worth.

APPENDIX

Table 1	The AMA Sample - Part 1	85
Table 2	The AMA Sample - Part 2	86
Table 3	The AMA Sample - Part 3	87
Table 4	The AMA Sample - Part 4	88
Table 5	Special Aspects of Business by Respondent Sales and Business Category	89
Table 6	Performance Ratings of Accounting Firms	90

Table 1 The AMA Sample - Part 1

		BY ANNUAL SALES					BY NO. OF FULL-TIME EMPLOYEES					BY BUSINESS CATEGORY							
	WHOLE SAMPLE	-$10M	$10-24M	$25-49M	+50M	N.A.	-25	25-49	50-99	100-249	+250	MFG - CONSUMER GOODS	MFG - INDUST GOODS	BANKING, FINANCE, INSRNCE	HEALTH CARE/ MEDICAL	PROF. SVCS	WHSALE/ RETAIL TRADE	OTHER	N.A.
WHOLE SAMPLE	377 100.0%	170 100.0%	80 100.0%	65 100.0%	76 100.0%	5 100.0%	74 100.0%	45 100.0%	74 100.0%	83 100.0%	99 100.0%	36 100.0%	120 100.0%	51 100.0%	25 100.0%	43 100.0%	25 100.0%	74 100.0%	3 100.0%
ANNUAL SALES/BUDGET: -$10M	170 45.1%	170 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	68 91.9%	37 82.2%	41 55.4%	20 24.1%	4 4.0%	13 36.1%	59 49.2%	16 31.4%	14 56.0%	31 72.1%	7 28.0%	29 39.2%	1 33.3%
$10-24M	80 21.2%	0 0.0%	80 100.0%	0 0.0%	0 0.0%	0 0.0%	3 4.1%	4 8.9%	26 35.1%	37 44.6%	10 10.1%	14 38.9%	23 19.2%	8 15.7%	2 8.0%	7 16.3%	9 36.0%	17 23.0%	0 0.0%
$25-49M	46 12.2%	0 0.0%	0 0.0%	46 100.0%	0 0.0%	0 0.0%	0 0.0%	4 8.9%	3 4.1%	14 16.9%	25 25.3%	6 16.7%	19 15.8%	1 2.0%	3 12.0%	2 4.7%	5 20.0%	10 13.5%	0 0.0%
+$50M	76 20.2%	0 0.0%	0 0.0%	0 0.0%	76 100.0%	0 0.0%	1 1.4%	0 0.0%	4 5.4%	11 13.3%	4 4.0%	3 8.3%	19 15.8%	24 47.1%	5 20.0%	2 4.7%	4 16.0%	18 24.3%	1 33.3%
N.A.	5 1.3%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	5 100.0%	2 2.7%	0 0.0%	0 0.0%	1 1.2%	0 0.0%	0 0.0%	0 0.0%	2 3.9%	1 4.0%	1 2.3%	0 0.0%	0 0.0%	1 33.3%
FULL-TIME EMPLOYEES: -25	74 19.6%	68 40.0%	3 3.8%	0 0.0%	1 1.3%	2 40.0%	74 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	5 13.9%	20 16.7%	13 25.5%	4 16.0%	13 30.2%	3 12.0%	16 21.6%	0 0.0%
25-49	45 11.9%	37 21.8%	4 5.0%	4 6.2%	0 0.0%	0 0.0%	0 0.0%	45 100.0%	0 0.0%	0 0.0%	0 0.0%	4 11.1%	14 11.7%	3 5.9%	4 16.0%	9 20.9%	7 28.0%	4 5.4%	0 0.0%
50-99	74 19.6%	41 24.1%	26 32.5%	3 4.6%	4 5.3%	0 0.0%	0 0.0%	0 0.0%	74 100.0%	0 0.0%	0 0.0%	7 19.4%	30 25.0%	7 13.7%	7 28.0%	7 16.3%	6 24.0%	9 12.2%	1 33.3%
100-249	83 22.0%	20 11.8%	37 46.3%	14 21.5%	11 14.5%	1 20.0%	0 0.0%	0 0.0%	0 0.0%	83 100.0%	0 0.0%	11 30.6%	19 15.8%	11 21.6%	5 20.0%	10 23.3%	6 24.0%	21 28.4%	0 0.0%
+250	99 26.3%	4 2.4%	10 12.5%	25 38.5%	60 78.9%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	99 100.0%	9 25.0%	37 30.8%	16 31.4%	5 20.0%	4 9.3%	3 12.0%	24 32.4%	1 33.3%
MANUFACT.-CONSUMER GOODS	36 9.5%	13 7.6%	14 17.5%	6 13.0%	3 3.9%	0 0.0%	5 6.8%	4 11.1%	7 40.5%	11 22.9%	9 37.4%	36 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%
MANUFACT.-INDUSTRIAL GOODS	120 31.8%	59 34.7%	23 28.8%	19 41.3%	19 25.0%	0 0.0%	20 27.0%	14 8.9%	30 9.5%	19 13.3%	37 9.1%	0 0.0%	120 100.0%	0 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%
BANKING, FINANCE, INSURANCE	51 13.5%	16 9.4%	8 10.0%	1 2.2%	24 31.6%	2 40.0%	13 17.6%	3 6.7%	7 9.5%	11 13.3%	16 16.2%	0 0.0%	0 0.0%	51 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%
HEALTH CARE/MEDICAL	25 6.6%	14 8.2%	2 2.5%	3 6.5%	5 6.6%	1 20.0%	4 5.4%	4 8.9%	7 9.5%	5 6.0%	5 5.1%	0 0.0%	0 0.0%	0 0.0%	25 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%
PROFESSIONAL SERVICES	43 11.4%	31 18.2%	7 8.8%	2 4.3%	2 2.6%	1 20.0%	13 17.6%	9 20.0%	7 9.5%	10 12.0%	4 4.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	43 100.0%	0 0.0%	0 0.0%	0 0.0%
WHOLESALE/RETAIL TRADE	25 6.6%	7 4.1%	9 11.3%	5 10.9%	4 5.3%	0 0.0%	3 4.1%	7 15.6%	6 8.1%	6 7.2%	3 3.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	25 100.0%	0 0.0%	0 0.0%
OTHER	74 19.6%	29 17.1%	17 21.3%	10 21.7%	18 23.7%	0 0.0%	16 21.6%	4 8.9%	9 12.2%	21 25.3%	24 24.2%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	74 100.0%	0 0.0%
NO ANSWER	3 0.8%	1 0.6%	0 0.0%	0 0.0%	1 1.3%	1 20.0%	0 0.0%	0 0.0%	1 1.4%	0 0.0%	1 1.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	3 100.0%

Table 2 The AMA Sample - Part 2

	WHOLE SAMPLE	BY ANNUAL SALES: -$10M	$10-24M	$25-49M	+50M	N.A.	BY NO. OF FULL-TIME EMPLOYEES: -25	25-49	50-99	100-249	+250	BY BUSINESS CATEGORY: MFG - CONSUMER GOODS	MFG - INDUST GOODS	BANKING, FINANCE, INSRNCE	HEALTH CARE/ MEDICAL	PROF. SVCS	WHSALE/ RETAIL TRADE	OTHER	N.A.
WHOLE SAMPLE	377 100.0%	170 100.0%	80 100.0%	46 100.0%	76 100.0%	5 100.0%	74 100.0%	45 100.0%	74 100.0%	83 100.0%	99 100.0%	36 100.0%	120 100.0%	51 100.0%	25 100.0%	43 100.0%	25 100.0%	74 100.0%	3 100.0%
TYPE OF OWNERSHIP: FAMILY	114 30.2%	72 42.4%	20 25.0%	12 26.1%	7 9.2%	3 60.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	18 50.0%	42 35.0%	11 21.6%	7 28.0%	12 27.9%	11 44.0%	13 17.6%	0 0.0%
PRIVATE	191 50.7%	84 49.4%	48 60.0%	25 54.3%	33 43.4%	1 20.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	15 41.7%	62 51.7%	21 41.2%	13 52.0%	27 62.8%	12 48.0%	38 51.4%	3 100.0%
PUBLIC	55 14.6%	8 4.7%	6 7.5%	7 15.2%	34 44.7%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	3 8.3%	16 13.3%	15 29.4%	3 12.0%	3 7.0%	2 8.0%	13 17.6%	0 0.0%
NOT FOR PROFIT	8 2.1%	5 2.9%	3 3.8%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	2 3.9%	1 4.0%	0 0.0%	0 0.0%	5 6.8%	0 0.0%
NO ANSWER	9 2.4%	1 0.6%	3 3.8%	2 4.3%	2 2.6%	1 20.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	2 3.9%	1 4.0%	1 2.3%	0 0.0%	5 6.8%	0 0.0%
THREE-YEAR AVERAGE ANNUAL RATE OF GROWTH: +20%	111 29.4%	62 36.5%	23 28.8%	11 23.9%	15 19.7%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	9 25.0%	34 28.3%	14 27.5%	9 36.0%	16 37.2%	8 32.0%	20 27.0%	1 33.3%
10-19%	125 33.2%	47 27.6%	30 37.5%	18 39.1%	29 38.2%	1 20.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	12 33.3%	40 33.3%	23 45.1%	5 20.0%	12 27.9%	10 40.0%	23 31.1%	0 0.0%
1-9%	108 28.6%	47 27.6%	17 21.3%	15 32.6%	29 38.2%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	10 27.8%	35 29.2%	11 21.6%	8 32.0%	13 30.2%	6 24.0%	24 32.4%	1 33.3%
ZERO GROWTH	11 2.9%	6 3.5%	5 6.3%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	2 5.6%	6 5.0%	1 2.0%	0 0.0%	0 0.0%	0 0.0%	2 2.7%	0 0.0%
NEGATIVE GROWTH	12 3.2%	4 2.4%	3 3.8%	2 4.3%	2 2.6%	1 20.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	3 8.3%	3 2.5%	1 2.0%	1 4.0%	0 0.0%	1 4.0%	3 4.1%	0 0.0%
NO ANSWER	10 2.7%	4 2.4%	2 2.5%	0 0.0%	1 1.3%	3 60.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	2 1.7%	1 2.0%	2 8.0%	2 4.7%	0 0.0%	2 2.7%	1 33.3%
CURRENT SERVICE: BIG EIGHT	190 50.4%	40 23.5%	48 60.0%	32 69.6%	68 89.5%	2 40.0%	6 8.1%	14 31.1%	37 50.0%	46 55.4%	86 86.9%	16 44.4%	56 46.7%	33 64.7%	11 44.0%	20 46.5%	9 36.0%	43 58.1%	2 66.7%
SECOND TIER	11 2.9%	3 1.8%	5 6.3%	1 2.2%	2 2.6%	0 0.0%	0 0.0%	3 6.7%	1 1.4%	5 6.0%	2 2.0%	3 8.3%	3 2.5%	0 0.0%	0 0.0%	2 4.7%	1 4.0%	2 2.7%	0 0.0%
REGIONAL FIRM	42 11.1%	22 12.9%	11 13.8%	6 13.0%	3 3.9%	0 0.0%	8 10.8%	7 15.6%	10 13.5%	10 12.0%	7 7.1%	4 11.1%	20 16.7%	1 5.9%	3 12.0%	2 4.7%	3 12.0%	7 9.5%	0 0.0%
LOCAL FIRM	112 29.7%	88 51.8%	15 18.8%	6 13.0%	3 3.9%	0 0.0%	48 64.9%	17 37.8%	23 31.1%	21 25.3%	3 3.0%	11 30.6%	36 30.0%	11 21.6%	8 32.0%	15 34.9%	12 48.0%	19 25.7%	0 0.0%
SOLE PRACTITIONER	21 5.6%	17 10.0%	1 1.3%	0 0.0%	0 0.0%	3 60.0%	12 16.2%	4 8.9%	3 4.1%	1 1.2%	0 0.0%	2 5.6%	5 4.2%	4 7.8%	3 12.0%	4 9.3%	0 0.0%	2 2.7%	1 33.3%

Table 3 The AMA Sample - Part 3

	WHOLE SAMPLE	BY OWNERSHIP				BY THREE-YEAR AVERAGE ANNUAL RATE OF GROWTH						BY CURRENT ACCOUNTING SERVICE				
		FAMILY PRIVATE	PUBLIC	NOT FOR PROFIT	N.A.	+20%	10-19%	1-9%	ZERO GROWTH	NEG. GROWTH	N.A.	BIG EIGHT	SECOND TIER	REGIONAL FIRM	LOCAL FIRM	SOLE PRACT.
WHOLE SAMPLE	377 100.0%	114 100.0%	191 100.0%	55 100.0%	88 100.0%	9 100.0%	111 100.0%	125 100.0%	108 100.0%	11 100.0%	12 100.0%	10 100.0%	190 100.0%	11 100.0%	42 100.0%	112 100.0%	21 100.0%
ANNUAL SALES/BUDGET: -$10M	170 45.1%	72 63.2%	84 44.0%	8 14.5%	6 6.8%	1 11.1%	62 55.9%	47 37.6%	47 43.5%	6 54.5%	4 33.3%	4 40.0%	40 21.1%	3 27.3%	22 52.4%	88 78.6%	17 81.0%
$10-24M	80 21.2%	20 17.5%	48 25.1%	6 10.9%	3 3.4%	3 33.3%	0 0.0%	30 24.0%	17 15.7%	5 45.5%	3 25.0%	2 20.0%	48 25.3%	5 45.5%	11 26.2%	15 13.4%	1 4.8%
$25-49M	46 12.2%	12 10.5%	25 13.1%	7 12.7%	0 0.0%	2 22.2%	11 9.9%	18 14.4%	15 13.9%	0 0.0%	2 16.7%	0 0.0%	32 16.8%	1 0.0%	6 14.3%	6 5.4%	0 0.0%
+$50M	76 20.2%	7 6.1%	33 17.3%	34 61.8%	0 0.0%	2 22.2%	15 13.5%	29 23.2%	29 26.9%	0 0.0%	2 16.7%	1 10.0%	68 35.8%	2 18.2%	3 7.1%	3 2.7%	0 0.0%
N.A.	5 1.3%	3 2.6%	1 0.5%	0 0.0%	0 0.0%	1 11.1%	0 0.0%	1 0.8%	0 0.0%	0 0.0%	1 8.3%	3 30.0%	2 1.1%	0 0.0%	0 0.0%	0 0.0%	3 14.3%
FULL-TIME EMPLOYEES: -25	74 19.6%	36 31.6%	34 17.8%	2 3.6%	2 2.3%	0 0.0%	30 27.0%	21 16.8%	13 12.0%	4 36.4%	4 33.3%	2 20.0%	6 3.2%	0 0.0%	8 19.0%	48 42.9%	12 57.1%
25-49	45 11.9%	12 10.5%	28 14.7%	3 5.5%	1 1.1%	1 11.1%	23 20.7%	9 7.2%	12 11.1%	0 0.0%	1 8.3%	0 0.0%	14 7.4%	3 27.3%	7 16.7%	17 15.2%	4 19.0%
50-99	74 19.6%	27 23.7%	41 22.5%	3 5.5%	1 1.1%	0 0.0%	22 19.8%	26 20.8%	19 17.6%	4 36.4%	1 8.3%	2 20.0%	37 19.5%	1 9.1%	10 23.8%	23 20.5%	3 14.3%
100-249	83 22.0%	26 22.8%	39 20.4%	12 21.8%	4 4.5%	2 22.2%	15 13.5%	34 27.2%	26 24.1%	2 18.2%	3 25.0%	3 30.0%	46 24.2%	5 45.5%	10 23.8%	21 18.8%	1 4.8%
+250	99 26.3%	13 11.4%	46 24.1%	35 63.6%	0 0.0%	5 55.6%	21 18.9%	35 28.0%	38 35.2%	1 9.1%	3 25.0%	1 10.0%	86 45.3%	2 18.2%	7 16.7%	3 2.7%	0 0.0%
MANUFACT.-CONSUMER GOODS	36 9.5%	18 36.8%	15 32.5%	3 29.1%	0 0.0%	0 0.0%	9 8.1%	12 9.6%	10 9.3%	2 18.2%	1 25.0%	0 0.0%	16 29.5%	3 27.3%	4 47.6%	11 32.1%	2 23.8%
MANUFACT.-INDUSTRIAL GOODS	120 31.8%	42 15.8%	62 7.9%	16 5.5%	0 0.0%	0 0.0%	34 30.6%	40 32.0%	35 32.4%	6 54.5%	1 25.0%	2 20.0%	56 8.4%	3 27.3%	20 9.5%	36 9.8%	5 9.5%
BANKING, FINANCE, INSURANCE	51 13.5%	11 9.6%	21 11.0%	15 27.3%	2 2.3%	2 22.2%	14 12.6%	23 18.4%	11 10.2%	1 9.1%	1 8.3%	1 10.0%	33 17.4%	0 0.0%	3 7.1%	11 9.8%	4 19.0%
HEALTH CARE/MEDICAL	25 6.6%	7 6.1%	13 6.8%	3 5.5%	1 1.1%	1 11.1%	9 8.1%	5 4.0%	8 7.4%	0 0.0%	1 8.3%	2 20.0%	11 5.8%	0 0.0%	3 7.1%	8 7.1%	3 14.3%
PROFESSIONAL SERVICES	43 11.4%	12 10.5%	27 14.1%	3 5.5%	0 0.0%	1 11.1%	16 14.4%	12 9.6%	13 12.0%	0 0.0%	0 0.0%	2 20.0%	20 10.5%	2 18.2%	2 4.8%	15 13.4%	4 19.0%
WHOLESALE/RETAIL TRADE	25 6.6%	11 9.6%	12 6.3%	2 3.6%	0 0.0%	0 0.0%	8 7.2%	10 8.0%	6 5.6%	0 0.0%	1 8.3%	0 0.0%	9 4.7%	1 9.1%	3 7.1%	12 10.7%	0 0.0%
OTHER	74 19.6%	13 11.4%	38 19.9%	13 23.6%	5 5.7%	5 55.6%	20 18.0%	23 18.4%	24 22.2%	2 18.2%	3 25.0%	2 20.0%	43 22.6%	2 18.2%	7 16.7%	19 17.0%	2 9.5%
NO ANSWER	3 0.8%	0 0.0%	3 1.6%	0 0.0%	0 0.0%	0 0.0%	1 0.9%	0 0.0%	1 0.9%	0 0.0%	0 0.0%	1 10.0%	2 1.1%	0 0.0%	0 0.0%	0 0.0%	1 4.8%

Table 4 The AMA Sample - Part 4

		BY OWNERSHIP					BY THREE-YEAR AVERAGE ANNUAL RATE OF GROWTH						BY CURRENT ACCOUNTING SERVICE				
	WHOLE SAMPLE	FAMILY	PRIVATE	PUBLIC	NOT FOR PROFIT	N.A.	+20%	10-19%	1-9%	ZERO GROWTH	NEG. GROWTH	N.A.	BIG EIGHT	SECOND TIER	REGIONAL FIRM	LOCAL FIRM	SOLE PRACT.
WHOLE SAMPLE	377 100.0%	114 100.0%	191 100.0%	55 100.0%	88 100.0%	9 100.0%	111 100.0%	125 100.0%	108 100.0%	11 100.0%	12 100.0%	10 100.0%	190 100.0%	11 100.0%	42 100.0%	112 100.0%	21 100.0%
TYPE OF OWNERSHIP: FAMILY	114 30.2%	114 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	33 29.7%	35 28.0%	32 29.6%	6 54.5%	7 58.3%	1 10.0%	33 17.4%	1 9.1%	15 35.7%	53 47.3%	12 57.1%
PRIVATE	191 50.7%	0 0.0%	191 100.0%	0 0.0%	0 0.0%	0 0.0%	60 54.1%	67 53.6%	53 49.1%	3 27.3%	3 25.0%	5 50.0%	97 51.1%	9 81.8%	23 54.8%	53 47.3%	9 42.9%
PUBLIC	55 14.6%	0 0.0%	0 0.0%	55 100.0%	0 0.0%	0 0.0%	14 12.6%	22 17.6%	16 14.8%	1 9.1%	1 8.3%	1 10.0%	49 25.8%	0 0.0%	4 9.5%	2 1.8%	0 0.0%
NOT FOR PROFIT	8 2.1%	0 0.0%	0 0.0%	0 0.0%	88 100.0%	0 0.0%	3 2.7%	1 0.8%	1 0.9%	0 0.0%	1 8.3%	2 20.0%	5 2.6%	0 0.0%	0 0.0%	3 2.7%	0 0.0%
NO ANSWER	9 2.4%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	9 100.0%	1 0.9%	0 0.0%	6 5.6%	1 9.1%	0 0.0%	1 10.0%	6 3.2%	1 9.1%	0 0.0%	1 0.9%	0 0.0%
3-YR AVE. RATE OF GROWTH:+20%	111 29.4%	33 28.9%	60 31.4%	14 25.5%	3 3.4%	1 11.1%	111 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	49 25.8%	2 18.2%	15 35.7%	41 36.6%	4 19.0%
10-19%	125 33.2%	35 30.7%	67 35.1%	22 40.0%	1 1.1%	0 0.0%	0 0.0%	125 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	70 36.8%	2 18.2%	11 26.2%	34 30.4%	8 38.1%
1-9%	108 28.6%	32 28.1%	53 27.7%	16 29.1%	1 1.1%	6 66.7%	0 0.0%	0 0.0%	108 100.0%	0 0.0%	0 0.0%	0 0.0%	53 27.9%	7 63.6%	14 33.3%	29 25.9%	4 19.0%
ZERO GROWTH	11 2.9%	6 5.3%	3 1.6%	1 1.8%	0 0.0%	1 11.1%	0 0.0%	0 0.0%	0 0.0%	11 100.0%	0 0.0%	0 0.0%	5 2.6%	0 0.0%	1 2.4%	3 2.7%	2 9.5%
NEGATIVE GROWTH	12 3.2%	7 6.1%	3 1.6%	1 1.8%	1 1.1%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	12 100.0%	0 0.0%	6 3.2%	0 0.0%	1 2.4%	3 2.7%	2 9.5%
NO ANSWER	10 2.7%	1 0.9%	5 2.6%	1 1.8%	2 2.3%	1 11.1%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	10 100.0%	7 3.7%	0 0.0%	0 0.0%	2 1.8%	1 4.8%
CURRENT SERVICE: BIG EIGHT	190 50.4%	33 28.9%	97 50.8%	49 89.1%	5 5.7%	6 66.7%	49 44.1%	70 56.0%	53 49.1%	5 45.5%	6 50.0%	7 70.0%	190 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%
SECOND TIER	11 2.9%	1 0.9%	9 4.7%	0 0.0%	0 0.0%	1 11.1%	2 1.8%	2 1.6%	7 6.5%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	11 100.0%	0 0.0%	0 0.0%	0 0.0%
REGIONAL FIRM	42 11.1%	15 13.2%	23 12.0%	4 7.3%	0 0.0%	0 0.0%	15 13.5%	11 8.8%	14 13.0%	1 9.1%	1 8.3%	0 0.0%	0 0.0%	0 0.0%	42 100.0%	0 0.0%	0 0.0%
LOCAL FIRM	112 29.7%	53 46.5%	53 27.7%	2 3.6%	3 3.4%	1 11.1%	41 36.9%	34 27.2%	29 26.9%	3 27.3%	3 25.0%	2 20.0%	0 0.0%	0 0.0%	0 0.0%	112 100.0%	0 0.0%
SOLE PRACTITIONER	21 5.6%	12 10.5%	9 4.7%	0 0.0%	0 0.0%	0 0.0%	4 3.6%	8 6.4%	4 3.7%	2 18.2%	2 16.7%	1 10.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	21 100.0%

Table 5 Special Aspects of Business

ASPECTS OF BUSINESS THAT MAKE THE ACCOUNTANT'S TASK ESPECIALLY COMPLEX OR CHALLENGING	WHOLE SAMPLE	BY ANNUAL SALES					BY BUSINESS CATEGORY							
		-$10M	$10-24M	$25-49M	+50M	N.A.	MFG - CONSUMER GOODS	MFG - INDUST GOODS	BANKING, FINANCE, INSRNCE	HEALTH CARE/ MEDICAL	PROF. SVCS	WHSALE/ RETAIL TRADER	OTHER	N.A.
	377 100.0%	170 100.0%	80 100.0%	46 100.0%	76 100.0%	5 100.0%	36 100.0%	120 100.0%	51 100.0%	25 100.0%	43 100.0%	25 100.0%	74 100.0%	3 100.0%
UNIQUE ACCOUNTING/TAX CONSIDERATIONS	150 39.8%	59 34.7%	30 37.5%	17 37.0%	43 56.6%	1 20.0%	8 22.2%	39 32.5%	29 56.9%	13 52.0%	12 27.9%	11 44.0%	37 50.0%	1 33.3%
FAMILY OWNERSHIP CONSIDERATIONS	143 37.9%	76 44.7%	33 41.3%	19 41.3%	14 18.4%	1 20.0%	20 55.6%	60 50.0%	9 17.6%	5 20.0%	13 30.2%	16 64.0%	20 27.0%	0 0.0%
RAPID GROWTH	124 32.9%	45 26.5%	36 45.0%	14 30.4%	29 38.2%	0 0.0%	10 27.8%	39 32.5%	20 39.2%	10 40.0%	11 25.6%	10 40.0%	24 32.4%	0 0.0%
MARGINAL PROFITABILITY	72 19.1%	36 21.2%	16 20.0%	6 13.0%	14 18.4%	0 0.0%	8 22.2%	29 24.2%	8 15.7%	7 28.0%	4 9.3%	4 16.0%	12 16.2%	0 0.0%
INTERNATIONAL OPERATIONS	57 15.1%	15 8.8%	12 15.0%	10 21.7%	20 26.3%	0 0.0%	8 22.2%	21 17.5%	3 5.9%	4 16.0%	2 4.7%	8 32.0%	10 13.5%	1 33.3%
HIGH LEVERAGE	52 13.8%	20 11.8%	17 21.3%	9 19.6%	6 7.9%	0 0.0%	7 19.4%	21 17.5%	3 5.9%	1 4.0%	4 9.3%	5 20.0%	11 14.9%	0 0.0%
START-UP SITUATION	46 12.2%	32 18.8%	7 8.8%	2 4.3%	3 3.9%	2 40.0%	3 8.3%	10 8.3%	3 5.9%	9 36.0%	7 16.3%	3 12.0%	10 13.5%	1 33.3%

Table 6 Performance Ratings of Accounting Firms

PERFORMANCE RATINGS FIVE-POINT SCALE (FIVE EQUALS HIGHEST RATING, ONE EQUALS LOWEST RATING)	WHOLE SAMPLE	BY CURRENT ACCOUNTING SERVICE: BIG EIGHT	SECOND TIER	REGIONAL FIRM	LOCAL FIRM	SOLE PRACT.
	377	190	11	42	112	21
OVERALL PERFORMANCE: AVERAGE RATING	3.86	3.83	3.73	3.85	3.90	4.05
NUMBER AT FIVE	65	26	2	6	25	6
PCT. AT FIVE	17.2%	13.7%	18.2%	14.3%	22.3%	28.6%
NUMBER AT FOUR OR THREE	291	156	7	32	81	15
PCT. AT FOUR OR THREE	77.2%	82.1%	63.6%	76.2%	72.3%	71.4%
NUMBER AT TWO OR ONE	19	8	2	2	6	0
PCT. AT TWO OR ONE	5.0%	4.2%	18.2%	4.8%	5.4%	0.0%
ACCURACY AND THOROUGHNESS: AVERAGE RATING	4.04	4.02	4.09	4.00	4.07	4.14
NUMBER AT FIVE	122	54	4	12	41	11
PCT. AT FIVE	32.4%	28.4%	36.4%	28.6%	36.6%	52.4%
NUMBER AT FOUR OR THREE	235	129	6	27	65	8
PCT. AT FOUR OR THREE	62.3%	67.9%	54.5%	64.3%	58.0%	38.1%
NUMBER AT TWO OR ONE	19	7	1	2	6	2
PCT. AT TWO OR ONE	5.0%	3.7%	9.1%	4.8%	5.4%	9.5%
UNDERSTANDING YOUR BUSINESS: AVERAGE RATING	3.96	3.83	4.00	3.90	4.13	4.38
NUMBER AT FIVE	114	49	2	8	43	12
PCT. AT FIVE	30.2%	25.8%	18.2%	19.0%	38.4%	57.1%
NUMBER AT FOUR OR THREE	243	128	9	32	66	8
PCT. AT FOUR OR THREE	64.5%	67.4%	81.8%	76.2%	58.9%	38.1%
NUMBER AT TWO OR ONE	19	13	0	1	3	1
PCT. AT TWO OR ONE	5.0%	6.8%	0.0%	2.4%	2.7%	4.8%
FLEXIBILITY: AVERAGE RATING	3.93	3.85	4.18	3.98	4.00	4.19
NUMBER AT FIVE	126	56	3	11	46	10
PCT. AT FIVE	33.4%	29.5%	27.3%	26.2%	41.1%	47.6%
NUMBER AT FOUR OR THREE	217	117	8	29	53	10
PCT. AT FOUR OR THREE	57.6%	61.6%	72.7%	69.0%	47.3%	47.6%
NUMBER AT TWO OR ONE	31	16	0	1	12	1
PCT. AT TWO OR ONE	8.2%	8.4%	0.0%	2.4%	10.7%	4.8%
BREADTH AND RANGE OF SERVICES: AVERAGE RATING	3.87	4.24	3.91	3.61	3.45	3.43
NUMBER AT FIVE	118	84	3	8	18	5
PCT. AT FIVE	31.3%	44.2%	27.3%	19.0%	16.1%	23.8%
NUMBER AT FOUR OR THREE	220	97	7	27	78	11
PCT. AT FOUR OR THREE	58.4%	51.1%	63.6%	64.3%	69.6%	52.4%
NUMBER AT TWO OR ONE	37	8	1	6	16	5
PCT. AT TWO OR ONE	9.8%	4.2%	9.1%	14.3%	14.3%	23.8%
EFFICIENCY (ON-TIME DELIVERY): AVERAGE RATING	3.75	3.72	3.64	3.76	3.89	3.33
NUMBER AT FIVE	87	34	3	10	37	3
PCT. AT FIVE	23.1%	17.9%	27.3%	23.8%	33.0%	14.3%
NUMBER AT FOUR OR THREE	246	138	6	25	64	13
PCT. AT FOUR OR THREE	65.3%	72.6%	54.5%	59.5%	57.1%	61.9%
NUMBER AT TWO OR ONE	42	17	2	6	11	5
PCT. AT TWO OR ONE	11.1%	8.9%	18.2%	14.3%	9.8%	23.8%